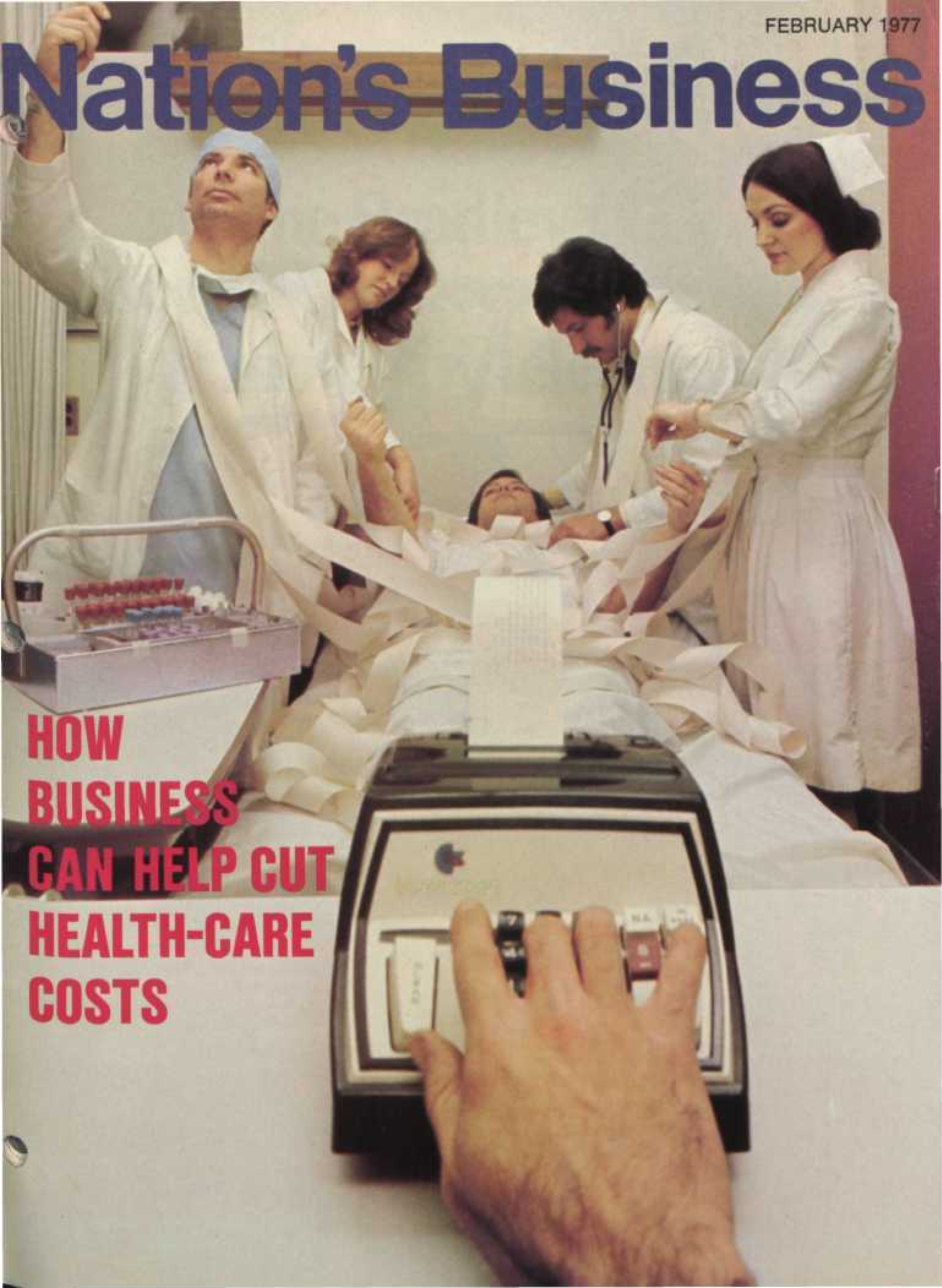
FEBRUARY 1977

Nation's Business



HOW BUSINESS CAN HELP CUT HEALTH-CARE COSTS

Nation's Business

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SOUND OFF TO THE EDITOR

A Single, Six-Year Term for Presidents?

SHOULD Presidents of the United States be limited to a single, six-year term?

Ten Presidents, starting with Andrew Jackson, have endorsed the idea of a single-term presidency, most of them favoring a six-year term.

Over the decades more than 160 resolutions have been offered in Congress to change the presidential term by constitutional amendment from four years to six, and most of these proposals have called for a one-term limit.

In 1913 the Senate passed a single, six-year term resolution, but the House never acted on it. Almost every year since then similar legislation has been introduced, but support has never reached the 1913 level. An amendment under which no person may be elected to more than two terms as President was adopted in 1951, however.

Those who favor limiting Presidents to one six-year term argue that a President could then focus his entire attention on running the country—he would be free from the need to engage in politicking aimed at winning a second term. Some say the change would make the President less vulnerable to pressure groups.

On the other hand, it is pointed out that such a President would assume lame duck status the moment he was sworn into office—which could limit his effectiveness before Congress throughout his tenure. Also, it is pointed out, the change would deny citizens the right to give a second term to a President who they believe has done a good job.

Former Senate Majority Leader Mike Mansfield has long supported a change to a single, six-year presidential term. He says that six years is long enough for one man to endure the pressures of the presidency and that adding to them the stresses of a reelection campaign "simply makes no sense."

But historian and political scientist James MacGregor Burns says:

"The strongest, most ever-ready, most popular control on the President is his concern about the judgment the people will pass on him at the next election. I do not see how anyone who is concerned about presidential power today can support a proposal that would make [the presidency] less accountable and responsible."

Should Presidents be limited to a single, six-year term? What do you think?

PLEASE CLIP THIS FORM FOR YOUR REPLY

Kenneth W. Medley, Editor
Nation's Business
1615 H Street N. W.
Washington, D. C. 20062

Should Presidents be limited to a single, six-year term? ☐ Yes ☐ No

Comments: ____________

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By JOHN COSTELLO
Associate Editor

The Best Way to Deal With Women Co-Workers

Most men have a sincere desire to give equal treatment to women co-workers, but don't know how.

So says The Research Institute of America, Inc., after making a survey of both men and women managers.

The survey showed that "few men feel completely comfortable with the increased presence and status of women on the job."

Some of the most common roadblocks to an easy, normal business relationship between the sexes are these, the institute finds:

• The old boy network.

Women are brought into committee meetings where decisions are formally ratified. But, often they are not invited to the extracurricular get-togethers, such as lunch, where the decisions may really be made.

• Women's lib rhetoric.

Some men are impersonal—to the point of rudeness—to women colleagues. Why? A typical explanation: "I don't want anyone to say that I am treating her like a sex object."

• Male ego.

A middle-management executive was impressed with a product handled by a saleswoman and told her his company would buy it. His superiors said no. The executive was unable to admit to a woman that he had been overruled.

To save face, he kept stringing the saleswoman along. Weeks went by before she finally realized that she would make no sale to the company.

The New York institute's study, "Working With Women: A Handbook for Men" ($10), suggests a solution to the problem of business relationships between the sexes.

"The cliché answer to how to deal with women," the book says, "is 'treat them as people.' The trouble with that kind of advice is that it is next to impossible to translate into action.

"The alternative suggestion is generally 'treat them like men.' For the executive who was brought up to believe that women expect gallantry and chivalry, this is equally difficult."

What's the right way?

"The trick is not to treat them 'as if they were' men; rather 'the same way *you* treat' men."

New Tax Regulations on Expenses Abroad

Businessmen now can deduct expenses for only two conventions a year that they attend outside the United States.

That is one of the new restrictions on deductions for attending meetings abroad that are laid down by the so-called Tax Reform Act of 1976.

"For tax reform, read tax increase," says one critic. "Under the 1976 law, many once-legitimate tax deductions are now prohibited."

The American Society of Association Executives has a 24-page booklet, "Guidelines for Foreign Convention Tax Deductions," that spells out the new ground rules. Here are some that apply to individuals:

• Deductible costs for travel outside the United States cannot exceed the cost of coach or economy air fare to the convention site.

If no coach or economy service is offered, then you may deduct the cost of first-class fare.

• To deduct transportation costs, at least half of the days spent on the trip must be devoted to business activities. Otherwise, the travel deduc-

tion is determined by the ratio of business-activity time to total time spent on the trip.

Days en route to and from the meeting are excluded.

• Deductible subsistence expenses cannot exceed the per diem allowance given federal employees who live where the meeting is held.

You can find out about per diem rates by writing the Director, Allowances Staff, Department of State, Room 501, State Annex No. 6, Washington, D. C. 20520. Ask for the publication: "Per Diem Supplement to the Standardized Regulations Concerning Government Civilians in Foreign Areas."

If the booklet does not mention your convention site, ask for a rate from the Allowances Staff, Department of State, A/ALS Room 505, SA-6, Washington, D. C. 20520.

• Deductions for subsistence expenses are not allowed unless you attend two thirds of the convention's business activities.

The rules that apply to conventions also cover seminars, board meetings, and committee meetings held abroad.

Copies of the pamphlet ($1) are available from the American Society of Association Executives, 1101 16th Street N. W., Washington, D. C. 20036.

What Should Appear in Your Annual Report

The Securities and Exchange Commission has a long list of things that must go in a company's annual report. Until this year, the list was optional for some companies.

This year, the list is mandatory for all firms.

Among the items SEC insists on are such basics as these:

• Company name, address, and phone number.

• Overall description of the business in which the company is engaged.

• Summary of the company's operations for the past five years.

• An analysis of these operations, telling what happened and why.

Doremus & Co., a New York-based financial advertising and public relations firm, has a checklist of SEC requirements.

But stockholders are interested in more than these things, Doremus

finds. It says an annual report also should include:

- A letter to stockholders that is a clear, comprehensive review of last year's performance and the outlook for next year.
- A description of the company's depth of management, financial strengths, market skills, product activity, and research capability.
- A financial summary covering the past five or ten years.
- An explanation of where the company stands in its industry and how its market share compares with the market shares of competing firms.

What about the press?

Business editors were asked by Ketchum, MacLeod & Grove, Inc., a Pittsburgh-based advertising and public relations firm, what they like to see in an annual report. Here are the topics they selected, in order of importance:

1. Management discussion and analysis of business, by line.
2. Capital spending in relation to earnings.
3. Projections on next quarter or half.
4. Return on the company's sales.
5. Return on shareholders' equity.
6. Consecutive quarter comparisons.
7. Environmental spending vs. earnings.
8. Return on assets and tax information.

What is the best way to make sure your report touches all bases?

By getting an early start, says Chas. P. Young-Chicago, corporate and financial printers. One way to do that is to use the firm's "Annual Report Production Schedule."

The schedule is an easy-to-use flow chart designed to help you plan and produce the company's annual report.

Clerical Hiring Plans—an Economic Weather Vane

One third of America's small and medium-size business firms intend to hire more clerical help in 1977. And one out of four expect to put more secretarial, accounting, and data processing personnel on the payroll.

Those statistics come from the latest annual survey made by The Dartnell Institute of Business Research. Companies polled on their hiring plans have yearly sales ranging from under $1 million to $50 million.

Hiring plans for office workers are a clue to the economic outlook, the institute says, because companies do not plan to add employees unless their own business promises to be on the upswing.

Here are the overall results from all companies that responded to the Dartnell poll:

Personnel-Level Forecast

	Accounting	Secretarial	Clerical	Data Processing
Increase	25%	26%	33%	25%
Decrease	6%	3%	6%	5%
Same	69%	71%	61%	70%

More hiring is planned now than was planned a year ago. At the start of 1976 only 19 percent of the firms surveyed planned to add accounting personnel, 20 percent to add secretarial help, and 28 percent to add clerical workers.

However, 32 percent planned to increase their data processing staffs last year.

BY JAMES J. KILPATRICK

Restraining the Public Employee Unions

SEVERAL WEEKS ago, in one of those year-end reviews on television, a panel of pundits ventured opinions on "the most serious domestic concern for the next few years." The first pundit spoke gravely of inflation and of what further devaluation of the dollar would mean. The second dwelled upon unemployment, especially among blacks and teenagers in the major cities. The third talked generally of the need to restore confidence in American institutions.

These were good answers. Inflation, unemployment, and apathy are serious concerns; the conservation of energy is yet another. But the fourth member of the panel had the surest, most incisive answer—public employee unionism. Down that perilous path, he said, lies the grimmest prospect of all.

Inflation and unemployment are old concerns; public employee unionism is relatively new. Fifteen years ago the problem scarcely existed. There were organizations of police and firemen; there were professional associations of teachers; but public unions, as such, were generally feeble and ineffectual outfits. A turning point came in 1962, when President Kennedy signed Executive Order 10988. On its face the order was neutral. It asserted that federal employees shall have the right freely to join and assist any employee organization "or to refrain from any such activity." The effect was to encourage public union membership. With that executive order a juggernaut was set in motion.

ODDLY ENOUGH, public employee unions, except in the Postal Service, have made little headway in the federal government. But today more than half of the estimated 9.2 million state and local government employees are members of unions. The most powerful of these is the American Federation of State, County, and Municipal Employees. It claims upward of 750,000 dues-paying members; its ranks grow by an average of 1,000 a week, and its potential is enormous. Only 11,000 of the nation's 78,000 local government jurisdictions are now organized, and in only 3,800 of these is the collective bargaining process fully in operation. The National Education Association and the American Federation of Teachers dominate unionism within the public schools. Other unions, such as the Teamsters, have a smaller part of the action.

Thirty-seven states, according to a recent survey, have enacted laws dealing with unions of public employees. The laws vary widely. Most of the statutes attempt to place limits upon the unions' privileges; others view the public unions virtually as private sector unions; seven of the states go so far as to authorize strikes under certain circumstances. In every state legislators are encountering relentless pressure to enlarge collective bargaining authority. The 95th Congress is certain to receive bills proposing a uniform federal law for public employee unions.

THE QUESTION, it seems to me, is not whether governmental workers should have a right to join a union. Of course they have that right. The First Amendment protects the right of all people peaceably to assemble and to petition the government for a redress of grievances. The right of association, as it has come to be called, is a precious right; men and women do not lose that right by accepting public employment.

The question goes rather to the rights, privileges, and powers of the unions in terms of collective bargaining—and ultimately the question devolves upon whether there is a right to strike. In the private sector the strike is the ultimate weapon. In the public sector such cities as New York, Baltimore, and San Francisco have felt its cutting edge. The National Education Association, with 1.7 million members, has not hesitated to call teachers out on strike when contracts satisfactory to union members have not been obtained. Relatively few jurisdictions have succeeded in halting the peril of public employee strikes by the alternative—the unsatisfactory and dangerous alternative—of compulsory arbitration. When the talk is of the peril of public unionism, this is the prospect most widely feared—the prospect of fires raging out of control, of criminals on a rampage, of garbage rotting in the streets as firemen, police, and trash collectors defy orders to return to work.

There are other perils also—perils to personal freedom, perils to the political process. In our national concern with more immediate and familiar troubles, these issues seldom are discussed. We had better start discussing them now.

In the view of labor leaders, private sector unions and public sector unions are all the same thing: They are organizations of workers whose purpose is to bargain collectively with their employers on wages and working conditions. It is just that simple.

The equation will not stand up. The differences are fundamental, both in substance and in law. Except for the public service corporations, which stand in a class by themselves, private businesses are subject to a largely economic process. When the United Auto Workers bargain with the Ford Motor Co., the economic battleground is well defined. Company negotiators have plenary power to reach an economic settle-

LETTERS TO THE EDITOR

Laying Blame for America's Regulatory Ills

I read with indignation the article by Sen. Charles H. Percy (R.-Ill.), "A Prescription for Curing Our Regulatory Ills" [December].

We have regulatory ills in the first place because of irresponsible, liberal legislators such as Sen. Percy who believe all alleged ills can be cured by government spending.

For example, the senator voted for consumer-protection legislation that would have created still another government agency. He also voted for the common situs picketing bill to legalize secondary boycotts at construction projects and for a public-works employment plan which shifts work from the private to the public sector. Sen. Percy's liberal, antibusiness voting record is long, indeed.

He writes in his article: "The economic costs of regulation are enormous. . . . Businessmen are drowning in a sea of paper." The senator should be aware of the fact that it is the Congress of which he is a member, not some supernatural force, that creates government regulatory agencies.

STEVE R. WASHBURN
Public Relations Assistant
Puget Sound Chapter, National Electrical Contractors Assn.
Seattle, Wash.

Winner take all

James J. Kilpatrick suggests in his column, "Improving the Presidential Election Process" [December], that the states adopt the district system for choosing presidential electors—a system which would end the current practice of giving all of a state's electoral votes to the candidate who carries the state at the polls.

Electors chosen by congressional district would cast their votes for the candidate who carries the district. Two electors chosen statewide, corresponding to the state's two senators, would vote for the candidate who carries the entire state.

The outcome of several presidential elections would indeed have been altered had they been conducted under the district system. But how would that have been an improvement?

The President is a national officer, but we have always elected him by states. If the state is the electoral unit, as I believe it should be, why should its vote not go entirely to the winner in the state?

HUGH M. PATTERSON
Baker & Botts
Houston, Texas

Congress's own expenses

There were serious errors in your editorial, "Where Congress Can Begin Containing the Growth of Government" [December].

The editorial reported the Tax Foundation as saying that the legislative branch of the federal government spent $925 million on itself in fiscal 1976 and that such spending would soon exceed $1 billion annually.

However, many activities in the congressional budget do not relate directly to the operations of Congress. It is highly misleading, for example, to suggest that the operations of the Government Printing Office or of the U. S. Botanic Garden are entirely, or even largely, for the benefit of Congress.

The Government Printing Office serves the whole government. The Botanic Garden is charged by law with growing, cultivating, and collecting various plants for exhibition and display, and it also provides research material to scientists, students, and garden clubs.

In addition, the Tax Foundation errs in its statement that congressional staff salaries "are high by almost any standard." Salary comparisons with private industry show that most congressional staff members are underpaid. These employees are not only overworked, but must carry out their duties in the most crowded conditions imaginable.

There is waste in government, and I am opposed to it. But the case for reform can be made without misrepresenting the facts.

JAMES R. FORCIER
Legislative Aide
U. S. Senate
Washington, D. C.

Antiprofit bias

Dr. Simon Ramo's article, "Using Technology to Advance Human Progress" [December], was perceptive in describing how antitechnology bias impedes the full exploitation of technology for the benefit of mankind.

The public should not only cast aside its antitechnology bias, as Dr. Ramo suggests, but also its antiprofit bias.

Industry and sympathetic opinion leaders in the media, education, and politics should join in countering the false image of profiteering and price gouging that has been pinned on business by radicals and liberals.

While actual profit margins are a slim five percent on sales, the public has been brainwashed into believing that profit margins range from 28 to 61 percent. As a result, liberals pander to the economically illiterate by sponsoring punitive tax and regulatory legislation. Such legislation is most damaging, in the final analysis, to the public it was purportedly designed to help.

Businessmen and sympathetic opinion leaders should emphasize how the profit motive leads to lower prices, enabling workers to buy more.

Having convinced the public that profits benefit workers the most, business would find it easier to sponsor legislation that would increase profitability through tax reform. The increased profits could be reinvested to provide the long-lasting employment opportunities that are the foundation of stable economic growth.

JOHN J. PARKER
Pompano Beach, Fla.

Economics for Young Americans

the need is now

It is important that today's students receive greater knowledge about basic economics if they are to have a better understanding of business. The Chamber of Commerce of the United States, in cooperation with teachers, has developed a kit which will encourage greater interest in profits, productivity, money, and ecology.

Many companies are contributing to a wider understanding of American business by placing these "Economics for Young Americans" kits in secondary schools. Each kit contains filmstrips, tape recordings, scripts, and special educator-written teacher guides. How have these kits been received? Endorsement from a number of state departments of education. Direct orders from schools. Great interest from teachers and students alike. And comments from the organizations which have placed the kits in school districts of some 30 states with a strong, overall message: "It's a most rewarding project."

Yes, the project is a proven success, but for complete success these kits should be in every school in the United States. The only way this can be done is through the help of organizations like yours. The National Chamber is asking businesses to cover states or districts where they have operations. Kits are $35 each for two or more. We'll be glad to give you cost figures for the school area you're interested in covering. Just contact the Director of Promotion, by mailing this coupon, or by calling (202) 659-6183.

Director of Promotion, Chamber of Commerce of the United States
1615 H Street N. W., Washington, D. C. 20062
(202) 659-6183

_____YES, I want to improve economic understanding by purchasing _____ (no.) kits to be placed in the secondary schools of _____________

_____Check enclosed _____Bill me

_____Please send me additional background information about "Economics for Young Americans." I particularly am interested in knowing about the schools in _________ area.

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How Business Can Help Cut Health-Care Costs

There are two main reasons for business people to fight medical inflation: (1) Health care is a major payroll item and (2) soaring medical expenses provide excuses for supporters of a government-run health system

PHOTO: BARRY BLACKMAN

AMERICAN business leaders can play a major role in heading off adoption of the nationalized health care they so adamantly oppose.

That is the consensus of many people with expert knowledge about the intertwined economic and political trends in health care.

As the biggest buyer of medical services, business is in the best position to combat inflation of the prices of those services, the experts say.

If business does not effectively intervene, medical inflation is expected to accelerate. Total medical spending in the nation is projected at $264 billion by 1982, double the current total and six times the total of just ten years ago.

Support for federal system

Medical economists fear that, as health-care costs rise, individual citizens will increasingly support efforts by labor unions and other pressure groups to win congressional approval of a national health-care system. The cost of such a tax-financed, government-run health system would be vast, and there is little likelihood that it would pay off in improving the quality of medical care.

A forceful business campaign to reduce medical costs, on the other hand, could deny public support to politicians pressing for a nationalized system.

One of the leading experts on health-care costs is Dr. Paul M. Ellwood, Jr., president of InterStudy, a Minneapolis-based research center on health policy. InterStudy is a consultant on medical issues to the U. S. government, foreign governments, and other clients.

"If business does not take an activist role in containing health costs," Dr. Ellwood says flatly, "government is going to take over."

Other experts echo that view.

Robert F. Froehlke, president of the Health Insurance Association of America, whose membership includes 318 insurance companies, says that "the frighteningly fast inflationary spiral of health-care costs is a cata-

lyst driving many Americans in the direction of nationalized health insurance."

Roger C. Sonnemann, vice president for administration and employee relations of AMAX Inc., and chairman of the Special Committee on the Nation's Health Care Needs, Chamber of Commerce of the United States, says the business community can either make substantial efforts to reduce medical costs or expect "extensive government intervention and controls" in the health field.

One union official's stand

Even a top union official, in opposition to the views of most of organized labor, worries about a federal takeover. Daniel Shannon, executive director of a Teamsters Union health, welfare, and pension fund that spends $500,000 a day on health services in 30 states, notes the lack of a widespread movement to curb health costs. He is concerned that a federally supervised health-care system "might be adopted to fill this vacuum."

While some companies have already launched significant programs aimed at reducing employee medical expenses, the problem of how business generally can cope with the rise in these expenses remains a pervasive one. The rise is an important factor in business costs, because the level of medical charges affects health insurance premiums. Companies commonly pay part, or even all, of these premiums for employees.

The Ford Motor Co. has been working for 25 years at medical cost containment. However, Jack K. Shelton, manager of Ford's Employee Insurance Department, reports that company spending for health care rose from $68 million in 1965 to $298 million in 1975. The total is expected to reach $575 million in 1979. Part of the reason so big a jump is expected is a recent contract settlement with the United Auto Workers, although the contract contains some provisions aimed at curbing costs of health care.

Mr. Shelton also sounds a warning about the situation's gravity:

"Ford must divert money from other important operations to meet these increasing health-care costs. Diversion of funds to pay for such cost escalation is debilitating, reducing the company's limited resources, which are urgently needed to keep us competitive in the marketplace.

"Our employees' well-being, as well as that of our suppliers, depends in large measure upon Ford's being competitive."

What is the first step employers can take to come to grips with the problem of health-care costs?

Dr. Ellwood says: "Businessmen have to start thinking of the overall health-delivery system as one of their suppliers, subject to the same economic forces as other suppliers who sell goods and services.

"If businessmen want to do anything about the way health care is financed, they have to alter the structure of the way that care is delivered.

"The ideal way to attack medical inflation is to introduce market forces into the health-care system. Employers have to get hard-nosed about medical costs."

Causes of health-cost jump

Dr. Ellwood lists these root causes of medical inflation:

Third party coverage. More than 170 million Americans are covered by private health insurance that protects them against major medical

PHOTO: YOICHI OKAMOTO

"Consumers should know just where their health dollars are going," says Robert F. Froehlke, president of the Health Insurance Association of America.

Dr. Paul M. Ellwood, Jr., nationally recognized expert on health costs, warns "government is going to take over" unless business fights harder against medical inflation.

costs. Most other Americans are covered by some form of government guarantee. Individuals seeking medical care that comes under private insurance or is publicly financed do so with the expectation that they are not incurring direct, out-of-pocket obligations. "The assurance that someone else is paying the cost of treatment takes away any consumer cost restraints," Dr. Ellwood says.

Purchasing decisions. Once an individual has sought advice from a physician, the doctor makes virtually all subsequent decisions on what additional health services and materials should be purchased—hospitalization, consultation with specialists, tests, exploratory surgery, drugs, prosthetic devices, and so on. A patient whose insurance covers care in a hospital but not in a doctor's office is far more receptive to the idea of hospitalization, Dr. Ellwood says, regardless of the fact that such hospitalization may unnecessarily add to the total bill.

Supply of physicians. The number of physicians has great impact on the amount of medical care produced. "The well-organized health-delivery system needs 1.3 physicians per 1,000 persons, less than half of them specialists," Dr. Ellwood says. "The national average now is 1.5 physicians, about 70 percent of them specialists. The average is projected to be 2.3 physicians per 1,000 persons by 1990. Each of those doctors will be generating at least $100,000 a year in medical costs."

The medical mind. "Physicians are taught that they should do absolutely everything they can for the patient, regardless of the cost," Dr. Ellwood says. Many doctors, he says, reason that if $500 worth of tests will guarantee 95 percent certainty of the nature of the illness, "why not spend $1,000 and be 98 percent sure?"

Expansion of services. "In medical care, the product itself is almost infinitely expansible. There is almost always another step a medical practitioner can take or order to do a better job." A large biomedical research establishment, for example, is constantly producing new and refined testing techniques that you can add to the system. As a result, the system is skewing toward high-style, costly care."

Inefficiency. The health delivery system is an amalgam of small, noncompetitive, inefficient units of production. While spending on medical care now totals $135 billion a year, the nation's largest single prepaid group medical practice plan, operated by the Kaiser Foundation for Kaiser Industries Corp. employees and many others, accounts for well under one percent of that total.

Accountability. "Consumers generally don't know if the medical care they are getting is worth the price. They have to take it on faith. The health system is not accountable for the results of what it produces. There is no systematic way to take a look at the end product, which is whether the patient is getting well and staying well."

Medicare and Medicaid

James R. Williams, general manager of the Health Insurance Institute and vice president of the American Council of Life Insurance, cites as an additional factor pushing health costs upward "the tremendous changes that have occurred in the health-care field since the Medicare and Medicaid acts of 1965."

He points out that 22.5 million aged and 2.1 million disabled are now enrolled in Medicare and 22.9 million poor are now receiving services from Medicaid.

In fiscal 1975, Mr. Williams says, federal and state payments for health care represented about 42.2 percent

David F. McIntire, employee benefits manager at General Mills, reports the cost-control potential of prepaid medical plans attracted his company.

Business can effectively fight medical inflation by joining community health-care activities, says Jack K. Shelton, Ford Motor Co. worker benefits manager.

AMAX Inc. executive Roger C. Sonnemann, a leader in business efforts to cut health costs, urges "a more competitive health-care marketplace."

of all health expenditures. He adds: "Diffused through taxes, this hidden cost of national health care serves as a far greater catalyst to rising health-care costs than private insurance plans."

What to do?

With the causes of medical inflation thus identified, the next question is what should be done to curb that inflation.

Some constructive steps have already been taken, albeit on a relatively limited basis in terms of the overall national problem.

A group of employers in the Minneapolis-St. Paul area realized several years ago that they shared a common concern over the increase in costs of providing medical coverage for employees. The result was formation of the Twin City Health Care Development Project. The project's goal: To explore the feasibility of providing medical care through health maintenance organizations, or HMO's, as well as through the traditional fee-for-service approach.

An HMO, generally formed by a group of medical practitioners, provides health care to organization members on a fixed-fee basis. The fee, paid either directly or through the member's insurance company, covers all services. [See "Is the HMO Just What You Ordered for the Doctor?" in NATION'S BUSINESS, December, 1972.]

Better control of costs

General Mills, Inc., was one of the founders of the Twin Cities project. David F. McIntire, General Mills manager of employee benefits, says his company was interested in the "apparent potential for better control of costs under the prepaid approach."

Work of the Twin City Health Care Development Project has led to formation and extensive use of HMO's in the Minneapolis-St. Paul area. In addition, the project has evolved into the National Association of Employers on Health Maintenance Organizations, with 93 corporate members in 21 states. Total employment of member firms is more than two million.

Interest in HMO's was spurred by the Health Maintenance Organization Act, passed by Congress in 1973, which under certain circumstances requires employers of 25 or more workers to offer membership in a qualified HMO as an alternative to a standard company medical-insurance plan. The national association offers employers advice and assistance on implementing the HMO option.

Mr. McIntire, who is president of the association in addition to holding his corporate position, says experience has shown "there is little or no evidence to suggest that the quality of care furnished by an HMO is inferior to that received in the traditional fee-for-service approach. In fact, several studies indicate that the care received in HMO's is as good as the care received elsewhere."

Individual actions

Individual firms have also taken effective action on medical costs.

Goodyear Tire & Rubber Co. has an executive assigned full-time as manager for health-service industry relations. In that post, Richard Martin works closely with physicians, hospitals, and others in the health-services delivery system to control costs as much as possible.

R. J. Reynolds Industries, Inc., has built a health-care center costing more than $2 million in Winston-Salem, N. C., and has organized a prepaid group practice for company employees in that city.

The Continental Group, Inc., in conjunction with Metropolitan Life Insurance Co., is sponsoring a program to review medical charges incurred by Continental employees. One objective of the screening is to guard against excessive hospitalization, which many view as a major cause of medical inflation.

Ford's Mr. Shelton notes that his company's efforts over the years to contain medical costs have included active involvement by executives in such organizations as the Greater Detroit Area Hospital Council, Blue Cross and Blue Shield, state health-care planning commissions, and many hospital boards. Ford believes, he says, that "one of the most productive ways to deal with health-care cost escalation is through community action programs." Mr. Shelton says businessmen must get into the process of decision-making on how high medical costs should be.

Many other companies are making innovations. They range from close review of medical bills (and complaints to suppliers of medical services if bills seem overly high) to education programs aimed at showing workers how they can improve their own physical welfare through proper nutrition, exercise, and other good health practices.

The national challenge

At the same time, more and more attention is being paid to the broad challenge of coping with medical inflation on a national scale.

For example, Dr. Ellwood and his associates at InterStudy have developed a proposed major overhaul calling for:

- Delivery of comprehensive medical care through a variety of organizations, such as HMO's and other forms of group practice, with all competing for business.
- Financial incentives for both medical-service providers and consumers to select lower-cost sources

and types of care without sacrificing the quality of care.

- Opportunity for consumers to inform themselves about various health-care organizations and make advance provisions for care, over a fixed period, on the basis of price, benefits, and satisfactory service.

Insurance firms' role

President Froehlke of the Health Insurance Association says insurance companies can act more forcefully.

"We have not insisted that each citizen be involved in paying the health-care bills of the doctors, hospitals, druggists, etc.," he says. "We must find better ways of letting consumers know just where their health dollars are going and for what.

"Only when they realize how much actual costs are will our citizens understand the need for reforms, new priorities, and moderation in health care."

Mr. Froehlke adds that "health insurers have been too willing to bow to the shrine of the doctor-patient relationship and not be involved at all in areas of quality and cost."

Meanwhile, the National Chamber Foundation, an organization that finances research in the national economic area, has launched a research project with twin goals.

One goal is improving the quality of health care.

The other goal, as Roger Sonnemann of AMAX puts it, is "developing a more competitive health-care marketplace and thereby achieving greater health impact for each dollar spent." Mr. Sonnemann heads the research project.

The business community will participate directly in the project in key ways, Mr. Sonnemann says. For example, companies that have developed effective programs for curbing medical costs will be asked to contribute their expertise to the study.

Mr. Sonnemann adds: "It is logical for business to be involved in improving the health-care delivery system. There is every reason to believe that the same management principles which have proven to be productive in industry will be effective in improving the efficiency of the health-care system."

The American Medical Association has a high-level task force at work in search of ways to reduce medical costs. Such leading experts in medical economics as Dr. Walter McClure of InterStudy reject the view of some critics that physicians are deliberately fostering health-care system policies that enhance their own economic status. "The problem is structural, not conspiratorial," Dr. McClure says. "The great bulk of medical professionals are honorable, committed people."

A sense of urgency

The advent of a new national administration committed to some form of a national health plan has added a sense of urgency to the debate over public-vs.-private medical care.

Alain C. Enthoven, professor of public and private management at Stanford University, has some advice for politicians who propose government intervention in the organization and financing of medical care.

Such politicians, Prof. Enthoven says, would do well to follow the mandate of the physicians' Hippocratic oath and "abstain from whatever is deleterious and mischievous." □

NATIONAL HEALTH INSURANCE:

How Proposed Law Would Impact on Business

Decisions the 95th Congress will make on health-care legislation could have a major impact on business costs. This is the current situation.

THE ISSUE

At issue is how best to provide health-care services to the population and to contain medical inflation while improving the quality of medical care.

Organized labor is pressing for national health insurance—extensive government intervention into the health-care system, with employers paying most of the cost. Business would pay 3.5 percent of total payroll. Employees would pay one percent. The self-employed would pay two percent on the first $20,000 of earnings. The private health-insurance industry would essentially be eliminated, with government paying medical bills directly.

Business supports the principle of requiring employers to have company-sponsored insurance coverage for workers and their families, provided costs are shared evenly by employer and employee. Private health insurance companies would provide coverage. Individuals not covered by a company plan and financially unable to purchase their own insurance would be eligible for government-paid coverage through the private insurers. The Medicaid program for the poor would become part of this government-paid coverage. The Medicare program for the elderly would continue in its present form.

THE STATUS

Organized labor believes this is a prime year for winning approval of government-run national health insurance.

The AFL-CIO, which has long spearheaded efforts to win enactment of the program, gave major political support to President Carter and large numbers of candidates for Congress, including those in key committee and leadership positions. The Democratic platform supports adoption of "a comprehensive national health insurance system with universal and mandatory coverage."

Business leaders, through the Chamber of Commerce of the United States, are stepping up efforts to head off what they view as a major step toward totally nationalized health care.

MORE JOBS AT ANY COST

Organized Labor's Top Goal for 1977

Unless the AFL-CIO's top leaders change their minds when they meet this month in Bal Harbour, they will seek a statutory government commitment to full employment, even at the risk of more inflation

ORGANIZED LABOR'S top goal for 1977 is more jobs.

Labor is so insistent on the Carter administration's giving immediate attention to legislative measures to create jobs in both the private and public sectors that some perennial union goals will take a lower priority.

This does not mean that the AFL-CIO has set aside its usual long shopping list for other legislation. Most of the labor unions' legislative goals were incorporated into the Democratic Party platform, and labor wants the follow-through it feels it deserves for supporting Democrats at the polls last November.

Carter-Meany strain?

Even so, the AFL-CIO has shown signs of wariness about making public demands for legislation since Jimmy Carter won the presidency. The federation named a special committee of labor leaders to draft a list of legislative goals for presentation to the AFL-CIO executive council, which meets this month in Bal Harbour, Fla. Normally, the AFL-CIO has its list ready for distribution to the new Congress when Congress convenes early in January.

"We want to see what Carter comes up with first," says an AFL-CIO spokesman.

One thing the new administration has come up with—a two-year program to create jobs—has not found favor with AFL-CIO President George Meany and his cohorts.

When Mr. Carter announced the program Jan. 7 an AFL-CIO statement denounced it as too small and too slow. Union officialdom wants government action that many experts say would accelerate inflation.

On Nov. 6, four days after Mr. Carter's election, Mr. Meany said that "jobs are the No. 1 priority" and that the federation's goal is a three percent unemployment rate. Six days later, at a press conference in Plains, Ga., Mr. Carter said:

"We believe that we could get the unemployment rate down over a fairly long period of time—two, three, or perhaps four years—to a four to 4½ percent figure before excessive inflation pressure will be felt."

But Mr. Meany has a problem with time if he is to point to labor achievements on reducing unemployment while he is in office.

Now 82 years of age, he no longer defiantly denies that he is thinking of retiring. Many predict he will step aside this year in favor of AFL-CIO Secretary-Treasurer Lane Kirkland.

Unless the AFL-CIO's top leaders change their minds this month in Bal Harbour, their legislative goals for 1977 will be headed by a statutory government commitment to full employment. This would include a commitment to specific steps that would be taken to achieve and maintain a three percent unemployment rate.

Labor favors enactment of a version of the Humphrey-Hawkins full employment bill; accelerated public works legislation; expansion of the Comprehensive Employment and Training Act; overhaul of the unemployment insurance system; and legislation that would put controls on plant closings and relocations, sometimes called an antimove bill.

On labor's list, too, is legislation to reduce mortgage interest rates, in order to stimulate the housing industry to an annual construction rate of 2.4 million units from a present 1.7 million.

In addition, organized labor wants new tax changes to remove what labor bigwigs call loopholes. Included here would be complete repeal of legislation launching the domestic international sales corporation (DISC) program, in which companies are given tax incentives to encourage sales abroad.

Universal health insurance

Passage of a national health insurance bill, preferably the Kennedy-Corman bill, also is a top goal. The Kennedy-Corman bill incorporates

Many predict that this will be the year in which 82-year-old George Meany steps down from the presidency of the AFL-CIO, a post he has held since the merger of the AFL and CIO in 1955. Whether or not Mr. Meany does retire, it is certain that he would like to see passage of a hefty package of legislation that would give top priority to job creation.

elements that organized labor says are needed, including a comprehensive single standard of benefits, universal coverage, access to health care as a matter of right, strong cost control, and "equitable" financing.

"I will stick my neck out and say that I'm convinced a national health insurance bill will come out of this Congress," says Andrew J. Biemiller, the AFL-CIO's legislative director.

High on the labor list, too, are changes in the Fair Labor Standards Act, including a 35-hour workweek, double time for overtime, an increase in the minimum wage, and tying the minimum wage to a cost-of-living indicator. The AFL-CIO wants the minimum wage raised to $3 an hour immediately. The independent United Auto Workers want the minimum—now $2.30 for all workers except those in agriculture—raised to $3.50.

New try for common situs

Labor again will press for passage of a common situs bill, permitting a single union to picket a multi-employer construction site, and President Carter has pledged to sign such a bill if Congress passes one. Passage seems a sure thing, but labor isn't counting its chickens before they are hatched in this area.

Congress passed a common situs bill in 1975. Then a public outcry, led by the Chamber of Commerce of the United States, trade associations, and businesses, induced President Ford to veto the measure, and Congress failed to override. Mr. Ford had earlier indicated he would sign the bill.

Louisiana last year became the 20th state to enact a right-to-work law barring labor-management contracts that make union membership a condition for employment. Such laws are authorized by Sec. 14(b) of the Taft-Hartley Act. Labor this year again wants repeal of 14(b), but will have problems in the Senate, where the vote is expected to be tight.

Repeal of 14(b) could present major political problems for President Carter in seeking reelection in 1980. The ten southern states he carried last November, which formed his base for election to the presidency, have right-to-work laws: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Texas.

Nor would repeal of 14(b) aid Mr. Carter in 1980 with the other ten right-to-work states, which he did not carry in the 1976 election: Arizona, Iowa, Kansas, Nebraska, Nevada, North Dakota, South Dakota, Utah, Virginia, and Wyoming.

In the area of Social Security, labor, led by the American Federation of State, County, and Municipal Employees, will lobby for universal Social Security coverage. In recent years some localities have taken their public employees out of the Social Security system, and others are considering doing so. The United Mine Workers, among others, will advocate that Social Security recipients get cost-of-living increases twice a year instead of once a year, as they now do, and that widows without children be eligible for benefits regardless of age.

Fighting illegal aliens

A job-related area that will gain more of organized labor's attention this year is legislation designed to cope with the alien worker problem. Labor favors bills that would impose criminal penalties on any employer who knowingly hires an illegal alien. A second choice would be a bill that would impose stiff civil penalties.

Although the number of farm workers continues to decline, the AFL-CIO will again campaign for legislation that would bring farm workers under the protective canopy of the existing National Labor Rela-

Lane Kirkland, the AFL-CIO's secretary-treasurer, who rose through staff assignments and has never headed a union, is favored to succeed Mr. Meany.

With a heavily Democratic Congress and a Carter White House, big labor has big expectations. As he has for 21 years, Andrew J. Biemiller, a former two-term Democratic congressman from Wisconsin, will ramrod the AFL-CIO's legislative effort.

tions Act or that would create a labor-dispute agency for farming that is similar to the National Labor Relations Board.

Public-worker bargaining

The AFL-CIO will try to hold the new President to a campaign pledge the labor federation says he made to it privately. The pledge: to support a national collective bargaining law for public employees. Labor will also ask for legislation placing public employees under the National Labor Relations Act and extending the Occupational Safety and Health Act to cover all workers, including those in public service.

A major effort will be mounted to bring public employee pension systems under the Employee Retirement Income Security Act of 1974, which now covers only private pensions.

Shocked by the Supreme Court decision last June that public employees' pay standards could not be set by the federal government through the Fair Labor Standards Act, the AFL-CIO initially insisted that every federal grant to state and local governments carry with it the requirement that the state and local governments observe the provisions of the Labor Standards Act.

Big labor later modified its position after concluding that such a provision would hurt the chances for cities and states to obtain federal funds needed to improve their financial condition. Aid to cities has high priority with labor this year.

While labor will aim for legislation in this and other public sector areas, the long-term goal is a more friendly court. William H. McClennan, president of the AFL-CIO Public Employee Department, says he has told President Carter he hopes the President will appoint "labor-oriented people" to the Supreme Court when vacancies occur there.

On-the-job injuries

A goal of the United Auto Workers will be to gain passage of a National Workers' Compensation Act. Each state now sets compensation levels for on-the-job injuries. The UAW contends uniform benefit standards and uniform administration are needed to prevent states from competing against each other to attract investment.

UAW Vice President Irving Bluestone, in congressional testimony last year, said: "It is evident from experience with corporate decision-making that compensation costs play a role in investment decisions. But even as Congress gives consideration to the cost to employers, it must give greater sympathetic understanding to the pain and suffering of American workers."

Along with the predictions that George Meany will step down as president of the nation's largest labor federation are the rumors that the Auto Workers will return to the AFL-CIO after a nine-year absence. There was an early-December session between UAW President Leonard Woodcock and Mr. Meany. Nothing was resolved, but the UAW will be considering a return to the fold this year.

And the Teamsters are being sent signals, after being independent of the AFL-CIO for 20 years. Patrick E. Gorman, chairman of the Amalgamated Meat Cutters and Butcher Workmen of North America (AFL-CIO) says publicly that "the AFL-CIO should invite the Teamsters to reaffiliate in order to strengthen the power and influence of the American trade union movement."

Meany's blaze of glory

Observers doubt that this open overture would have been made without a nod from Mr. Meany.

To end his career in a blaze of glory, Mr. Meany is believed to have

When and Which Industries Face Contract Demands

Nearly five million workers in private industry could be involved in collective bargaining confrontations this year, making 1977 a busier bargaining year than 1976. Last year 4.4 million workers were covered by union contracts that either expired or permitted reopening of wage provisions during the year.

The heaviest bargaining on major agreements will take place between March and September and will involve key industries such as steel, construction, communications, transportation equipment, food stores, apparel, and shipping.

A series of major collective bargaining agreements expired last month. They included contracts covering 9,000 longshoremen in the food industry, 8,450 workers in the tobacco industry, 19,000 workers in the petroleum industry, 10,000 auto workers, 7,000 teamsters, and 4,900 machinists.

Major collective bargaining agreements expiring in the rest of the year:

February: Electrical, 7,950 electrical workers; motor vehicles, 6,000 auto workers.

March: Food, 7,000 teamsters; tobacco, 7,250 tobacco workers; apparel, 7,500 clothing and textile workers; chemicals, 5,300 steelworkers; glass, 27,600 glass bottle blowers; instruments, 6,000 clothing and textile workers; communications, 14,300 communications workers; utilities, 9,050 electrical workers; hotels, 11,000 hotel and restaurant employees.

April: Leather, 7,000 leather workers; aircraft, 10,500 auto workers; utilities, 8,150 electrical workers and plumbers.

May: Apparel, 110,000 clothing and textile workers; metals, 45,500 aluminum workers and steelworkers.

June: Chemicals and allied products, 6,700 clothing and textile workers; machinery, 7,000 auto workers; shipbuilding, 18,000 metal trades workers; metal refining, 14,550 steelworkers, machinists, and auto workers; metal mining, 5,900 steelworkers.

July: Metals, 6,500 steelworkers; machinery, 9,000 allied industrial workers; restaurants, 5,500 hotel and restaurant employees; metal mining, 4,500 steelworkers.

August: Food, 9,950 bakery workers; metals, 372,000 steelworkers; machinery, 10,000 steelworkers; electrical, 57,000 electrical workers; communications, 428,300 communications workers, 23,300 electrical workers, and 57,600 communications workers belonging to independent unions.

September: Water transportation, 38,900 longshoremen.

October: Ordnance and accessories, 5,500 machinists and 6,050 auto workers; glass, 6,000 glass and ceramic workers; fabricated metal, 29,000 steelworkers; aircraft, 29,850 machinists and 17,350 auto workers; railroad equipment, 6,000 steelworkers.

November: Food, 9,400 retail and wholesale workers; electrical, 10,500 electrical workers.

December: Coal mines, 125,000 mine workers; aircraft, 14,450 aircraft workers; railroads, 429,700 railroad workers and 11,400 electrical workers; real estate, 13,000 service employees.

three personal goals. One is a meaty package of passed and signed legislation. Another is return of the UAW and the Teamsters to the AFL-CIO.

The third jewel for Mr. Meany's retirement crown would be massive union organizing in the South.

A southern campaign by clothing and textile workers has been under way since 1963, but without much success. The United Steelworkers are reported to have set aside a large sum to pay for a Dixie organizing drive. The United Auto Workers want to organize nonunion General Motors plants in the South and recently won a representation election among employees at a GM plant in Monroe, La.

The UAW victory, which was by a narrow margin, followed defeats for the union among workers at two other GM plants in the South in 1974 and 1975. In bargaining last year, the union won a letter of agreement from GM that the company would not campaign against UAW organizing attempts at southern plants.

Stalemate with Stevens

In 1974 textile workers won a close certification election at the J. P. Stevens & Co. seven-plant complex in Roanoke Rapids, N. C., but union and company have not been able to negotiate an agreement. Last Labor Day a nationwide boycott of Stevens products was announced by the AFL-CIO. The boycott is continuing.

The Amalgamated Clothing and Textile Workers believe that an agreement at Roanoke Rapids will open the floodgate to organizing the entire southern textile industry and lead to other unionization in the South, where about ten percent of workers belong to unions. The national average is 26 percent.

But the situation at Roanoke Rapids is a stalemate. The AFL-CIO union has only a token staff in the city. The boycott is not popular with Stevens employees, who see it as a threat to their livelihoods. As a consequence, some employees have mounted a drive to have the union decertified.

AFL-CIO organizers folded their tents in Kannapolis, N. C., last year, after losing a campaign to organize the employees of the Cannon Mills Co. complex in the area.

All in all, it should be a year of intense activity for organized labor. With a Democratic President and Congress, the chances of gaining many long-sought legislative goals seem bright. Yet, as evidenced by union setbacks in the South, what labor wants isn't necessarily what labor gets. The unions may find it unexpectedly difficult to cash in the chips they feel they won with their support for Jimmy Carter and other Democrats in the last election. □

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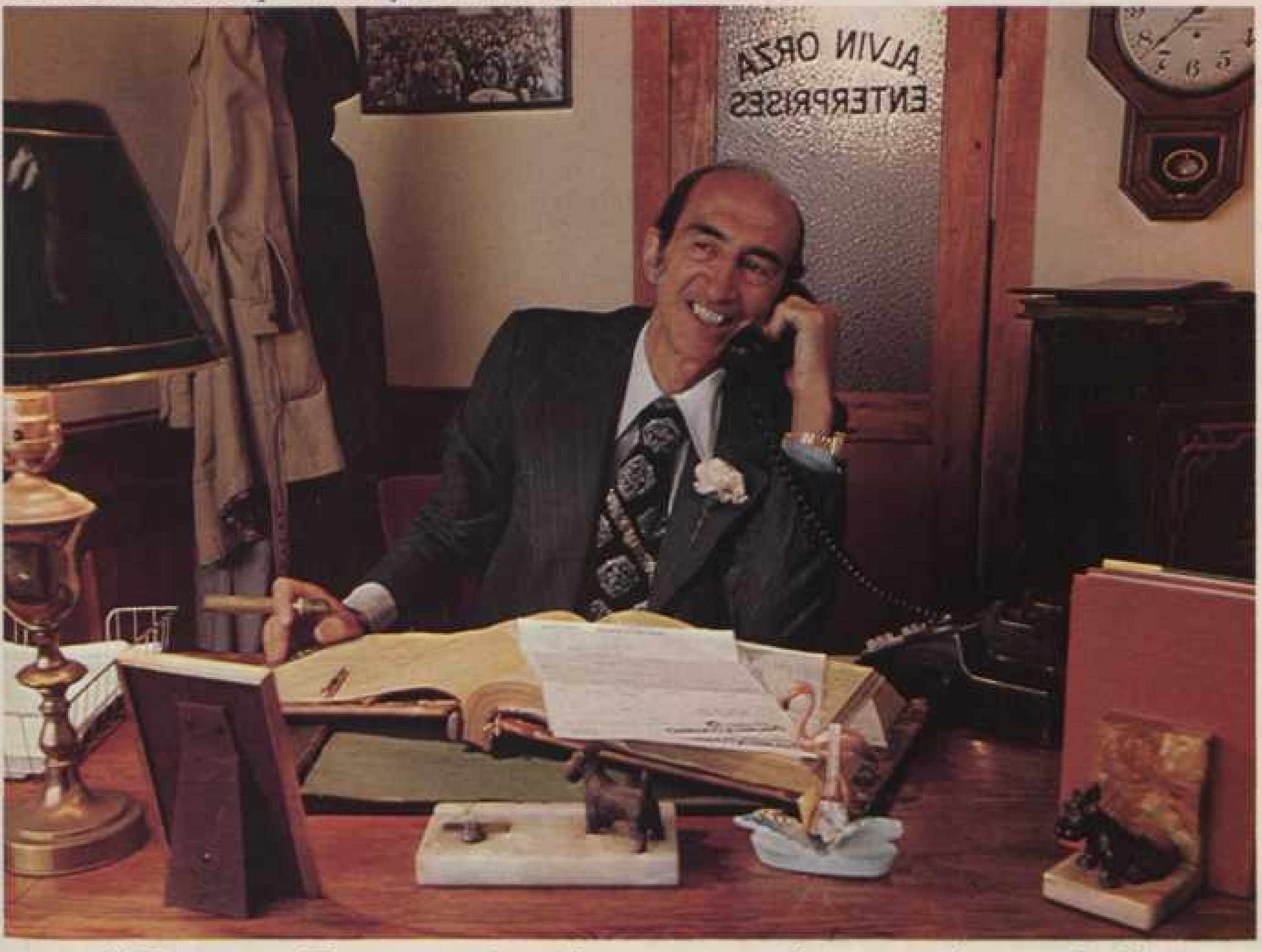

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A PROVEN METHOD TO 'LISTEN' YOUR WAY TO NEW EXECUTIVE POWER

Bright Prospects in the Executive Job Market

Businessmen are optimistic about 1977, executive recruiters find, and that means opportunity for managers who want to make a change

IF YOU ARE a business manager looking for advancement, there is a good chance you can find another job in 1977.

Interviews by NATION'S BUSINESS with executive recruiters across the country show that businessmen looking for new managers are optimistic about the year.

Max M. Ulrich, president of Ward Howell Associates, Inc., says: "Business ought to be good this year, and that means jobs for executives. If there is one good clue to the outlook for executives, it is the confidence businessmen show. Based on our feedback from them, we are optimistic."

New survey

A new survey by the Association of Executive Recruiting Consultants, Inc., shows that company requests for executive searches, which were up 20 percent last year, will continue running high this year.

The recruiters interviewed by NATION'S BUSINESS are officials of firms which are members of the recruiting consultants association. Most of the recruiters share the survey's optimistic view.

"This is going to be a good year," Russell S. Reynolds, Jr., says. "I think the second half will be better than the first. Companies are going to be a little cautious until they are more certain of the direction in which President Carter is going."

Mr. Reynolds is chairman of Russell Reynolds Associates.

"Compared with a year ago, executive search requests show a significantly different pattern," John F. Schlueter, executive director of the recruiting consultants association, says.

The association accounts for about 60 percent of all executive search business.

"Last year, the demand for accounting and financial executives was clearly the most easily identified trend," Mr. Schlueter says.

"Recently, requests for general managers and marketing or sales executives have led the pack. However, the demand for accounting and financial managers remains strong."

Profits elusive

Why are general managers and marketing executives on the most wanted list?

"Both are the kind of people who can make the bottom line zing," Frank G. Oliver, president of Oliver & Rozner Associates, Inc., says.

"That's the kind of managerial talent companies are on the lookout for these days.

"The economy looks solid, and business is good. Yet too many companies see sales go up while profits don't keep pace. Boards and chief executive officers want managers who can cure that problem.

"They are looking for profit-mak-

ers, managers who are market-oriented, who can cope with growing and costly government intervention, and who can still boost sales and profits."

James R. Arnold, a vice president at A. T. Kearney, Inc., concurs.

"Clients," he says, "are cost-conscious.

"Operations managers or plant managers who can operate efficiently and hold down costs are at a premium, for example. As business expands with the recovery, corporations want to increase production, but keep costs under control."

Here are two examples of the kind of executives sought by industry at home and abroad.

Case history abroad

Richard A. Hughes, his wife, Virginia, and their two younger children live in a handsome home at Swakopmund, Southwest Africa. Mr. Hughes is general manager of a big Rio Tinto Ltd. open-pit mine a few miles away.

Swakopmund, population about 8,000, is a seashore resort. It is half a world from Butte, Mont., where Mr. Hughes formerly was general manager of an Anaconda Co. open-pit mine.

"Mr. Hughes exemplifies the kind of technology that can be found best only in the United States," says recruiter Robert D. Spriggs, president of Spriggs & Co., Inc.

"Open-pit mining techniques in the western U. S. are the most highly developed of anywhere in the world, bar none.

"That's why Rio Tinto turned to this country to find a general manager for that kind of operation."

Case history at home

Morton Stone, vice president of merchandising for knit shirts at the Puritan division of Warnaco, Inc., in New York, represents a different but no less valuable talent.

Warnaco was having less than hoped-for success at merchandising knit sport shirts.

"They wanted a real pro who knew how to put that kind of product together and sell it at a profit," one source says.

"The sole requirement was experience and a good track record. The company wanted someone who knew how to sell high style and fashion in department stores, not a discount man."

After a four-month search, Robert A. Huttemeyer, a partner in Thorndike Deland Associates, discovered Morton Stone for Warnaco. Mr. Stone had been merchandising manager of sportswear for a major maker of men's shirts.

Where the jobs are

By a wide margin, industrial corporations are providing the lion's share of search requests, the Association of Executive Recruiting Consultants finds.

"Those companies are the kind most likely to ride up and down with the peaks and troughs of the business cycle," says C. Robert Martin, association president and senior vice president of Spencer Stuart & Associates, Inc.

"The recession in 1974 and 1975 hurt them worse than many other companies. But they learned a lot from it. They found they had to run tighter. They were forced to contend with a host of new problems, including investments abroad where they were plagued with currency fluctuations and creeping or rampant socialism.

"These industrial companies have had to find executives who could help them live with these new business trends and problems."

Members of the recruiting consultants association report requests for executives currently are coming most often from these industries:

Type of Business	Percent of Total Requests
Industrial corporations	62
Diversified financial companies	11
Retailing	9
Banking	8
Utilities	4
Life insurance	3
Transportation	3

Not all rosy

The big surge in search requests last year came in the first six months. Since mid-1976 demand has remained high, but it has not been explosive. Some companies are still trimming middle management ranks and staff positions, executive searchers report.

A backlog of unfilled positions was partly responsible for the executive search surge in the first half of last year, Donald C. Williams, senior vice president of Heidrick and Struggles, Inc., says. "In addition," he says, "after the economy began to pick up, companies were recruiting executives to fill new positions created by expansion plans.

"Those two factors accounted for about 40 percent of the new search requests early last year. The rest of the requests were for replacements in existing positions.

"We think that the rate of expansion will slow and that the market for executives will become more of a replacement market. But we see demand for executives continuing at high levels."

Age no barrier

Age has less bearing on searches for chief executives than it once might have had.

George H. Haley, president of Haley Associates, Inc., says that "we

have been going as high as 57 or 58 for the head of a corporation."

Carl W. Menk, president of Boyden Associates, Inc., notes the same trend.

"For one thing," he says, "there are fewer executives qualified for that position.

"Back in the 1930's we had a low birthrate because of the Depression. Then, in World War II, many young men were killed who would now be moving into senior management positions. And in the late 1950's colleges were turning out graduates who weren't willing to make the sacrifices it takes to be a corporate success. They had different values.

"Also, the chief executive's job itself has become more involved and demanding. Consumerism, pension regulations, other government controls and intervention, on top of traditional headaches, make the chief executive's job a lot tougher than it once was. He needs greater qualifications and broader experience to handle the job.

"All this has broadened the acceptable age range for a chief executive. Now corporations will take a man who is older or younger than they would before—if that man has the right credentials and track record."

Where Demand Is Highest

What types of management positions are executive recruiters now being asked to fill most often?

Here are the top ten cited by member firms of the Association of Executive Recruiting Consultants.

Rank	Job Description	Annual Salary
1.	Marketing/sales	$30,000-$45,000
2.	General management	$45,000-$65,000
3.	General management	$30,000-$45,000
4.	Marketing/sales	$45,000-$65,000
5.	Accounting/finance	$45,000-$65,000
6.	General management	$65,000-$100,000
7.	General management	$100,000 (plus)
8.	Manufacturing/production	$30,000-$45,000
9.	Staff functions	$30,000-$45,000
10.	General engineering, science and research	$30,000-$45,000

Three out of four jobs that association members are asked to fill pay less than $50,000 a year.

"Contrary to some opinions," one executive recruiter says, "we don't just look for superstars to run multibillion-dollar multinational corporations. There aren't many jobs like that.

"There are far more positions in middle management than at the top and far more openings at that level. More and more companies are turning to recruiters to find qualified executives for these middle-level, but important, positions.

"From among those executives come tomorrow's superstars."

Boom in board members

"We are getting a lot of requests to find directors for corporate boards," Mr. Haley says.

"Companies are looking for objective, dedicated, hardworking directors, unlike the old days when top management wanted friends on the board who wouldn't make waves.

"Corporations are being very careful when the selection is made. As a result, they're turning to outside, professional recruiters to find board members."

Mr. Reynolds, of Russell Reynolds Associates, notes the same trend.

"As the corporation assumes more social responsibility, the role of the board becomes more and more important. We are asked repeatedly to help companies attract new directors who will strengthen the board."

"Board work is trending up to a significant part of our firm's revenues," Spencer Stuart's Robert Martin adds.

Women executives

"Women are much sought after as board members and in management positions," Mr. Haley says. "Unfortunately, not too many women have the kind of track record that's wanted for top jobs because they haven't had the opportunity to get that experience."

Janet E. Jones, chairman of Management Woman, Inc., says the outlook for qualified women executives is bright. Her firm is the only member of the Association of Executive Recruiting Consultants that recruits women executives exclusively.

"If they have the right academic credentials, plus the track record of work experience, they are looked at very, very carefully," she says.

Will they get hired just because they are women?

"No. They must have all the subjective and objective requirements, including talent, that any company looks for in a manager. But if a woman can do the job, companies today will take a hard look at her.

"All things being equal, she will probably be hired, whereas five years ago most companies wouldn't even have considered her."

Breaking out of the mold

Nor are women executives restricted to what once were traditional female positions, as in personnel.

"Last year alone," Chairman Jones says, "we placed women in very diversified fields: sales management, a chief economist for a consumer com-

pany, a vice president of public relations, an assistant comptroller in a big conglomerate, an energy economist with an oil company, a senior vice president for marketing.

"The banking industry has been a good field for women executives. Especially operations management—running the information system, the back-room operation. That's a heavy line job, and a very good area, we find, for women executives."

New fields

"Government and not-for-profit organizations are responsible for a rather dramatic upturn in search requests," A. T. Kearney's Mr. Arnold says.

"I'm speaking in particular of hospitals, school districts, and general nonprofit organizations like United Way.

"Hospitals, to some extent, have been relying on search firms for help in finding executives for some time. But other nonprofit organizations are brand-new sources of search requests for executives with a track record in business.

"In the past two years we did seven searches for school superintendents. Prior to that we did none.

"Apparently, the same motive is at work here that you find in industry. Board members tell us that they need greater efficiency in their organization. That kind of talent, they add, is somewhat scarce."

Looking ahead

How far down the road can these forecasters see?

"The duration of the average search is at least three months," says Clarence E. McFeely, a partner in McFeely, Wackerle Associates. "Our current level of activity assures us of a good first quarter in 1977. It is difficult to predict, beyond that, what business will be like."

However, Thorndike Deland Associates' Robert Huttemeyer is among many recruiters willing to go further.

"We think this year is going to be another real winner for executive recruiting," he says. "Businessmen tell us it will be a good year for business in general. They have pretty good gut instincts about the economy.

"If business generally is good, executive recruiting will be good, too. We go with the tide, and it looks like the tide is coming in." □

A Bicentennial Salute to American Business

(Trumpet fanfare)

It was during the Civil War that most Americans first saw cans.

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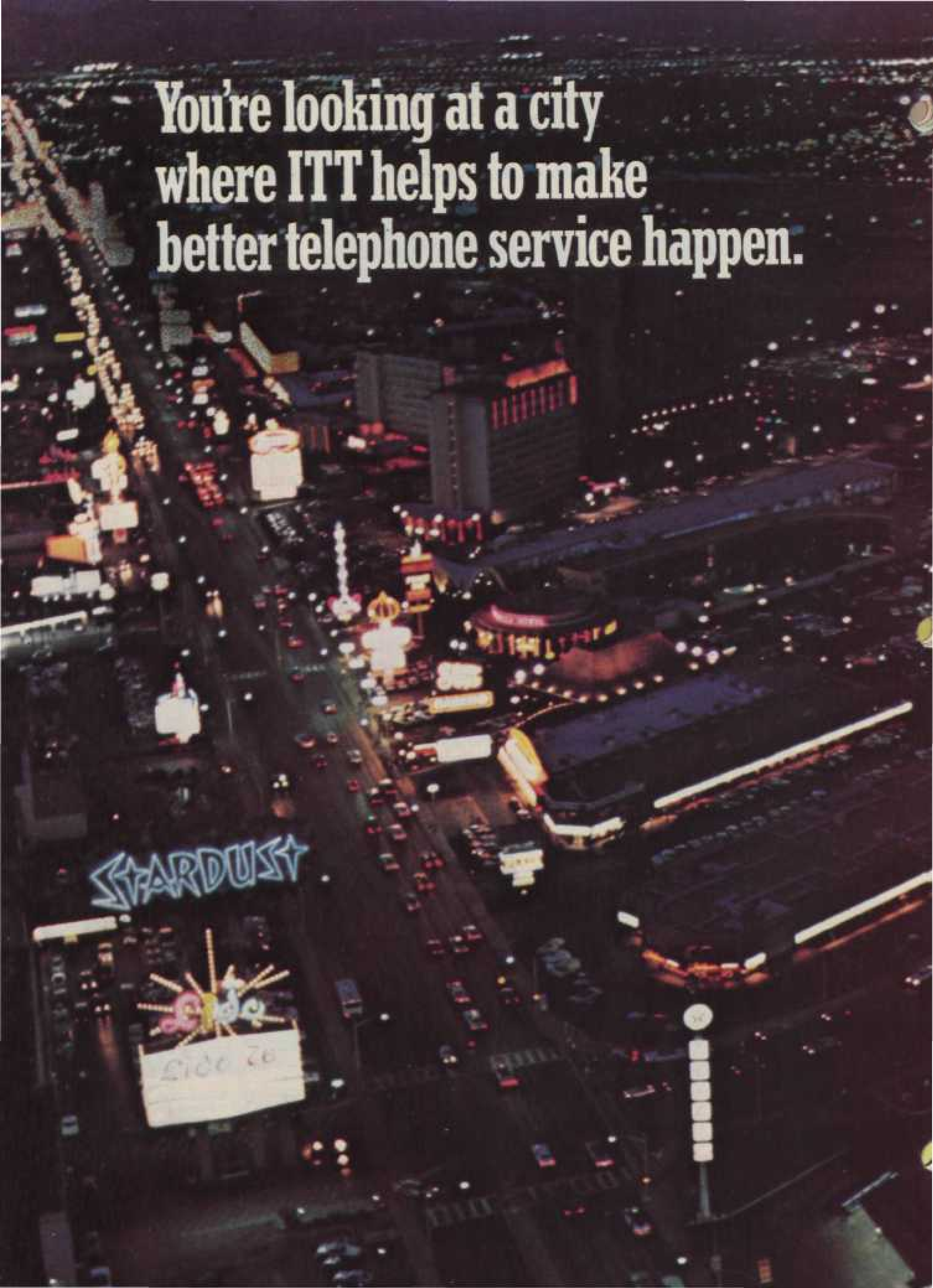
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Telecommunications Switching

Why Inflation Hits Some People Less Than Others

BY DR. ANDREW BRIMMER

The surging cost of living has had a varied effect on different groups in America's population. One result: Business can expect a drive by labor unions which is sure to affect profits

THE INFLATION that has plagued the United States in recent years has changed the distribution of income in this country to an extent that is not widely understood.

While the majority of Americans have seen a significant portion of their purchasing power eroded, some groups have fared better than the average, and their relative ability to buy goods and services has improved. Conversely, other segments of the population have fallen well behind.

Surprisingly, groups that have had the most protection from inflation are not necessarily those with the greatest economic power. Social Security beneficiaries, retired government employees, and welfare families receiving aid to dependent children seem to have improved their relative income position more than any other groups. This reflects actions by Congress rather than the interplay of market forces.

In the future, businessmen can expect a drive by labor unions which is bound to affect profits as well as the rate of inflation in this country.

Cost-of-living escalator clauses in labor contracts have given millions of Americans at least partial protection against inflation, and unions can be expected to demand changes that will increase protection. Also, many more such contracts will be demanded. And the escalator clause can be expected to spread to new business sectors where there are little or no productivity increases.

An analysis I have made of the effects of inflation on the distribution of income shows:

Between 1965 and 1975, total personal income in current dollars—unadjusted for inflation—rose 132 percent. But—after allowing for the effect of higher prices—real income advanced only 36 percent.

Wages jump

Total wage and salary payments in real terms increased 30 percent, while other labor income, mainly employer contributions to pension and welfare funds, rose 102 percent. The biggest real gain, 70 percent, was achieved by workers in service industries. The smallest real increase, seven percent, occurred in manufacturing industries.

Over the decade, total transfer payments, after allowing for inflation, climbed 154 percent. The biggest jump in the transfer payment category, 354 percent, occurred in unemployment insurance, a reflection of the 1974-75 recession. Among other payments in this category, welfare payments rose 211 percent; Social Security benefits, 163 percent; government retirement benefits, 146 percent; and veterans' benefits, 71 percent.

The incomes of unincorporated enterprises, corrected for inflation, declined 14 percent over the 1965-75 decade. On balance, farm income rose moderately—15 percent. But income of nonfarm proprietors shrank 22 percent.

In the same vein, personal rental income fell 28 percent. Inflation slightly outpaced the increase in

HOW INCOME CHANGES COMPARE TO THE RISE IN PRICES (1965-75)

Between 1965 and 1975, the consumer price index rose 71 percent. Various types of incomes rose in this period, too, but it is only when the totals of such incomes are adjusted for inflation that the true significance of the income changes becomes apparent. For example, total personal income, adjusted—real income—increased 36 percent more than inflation. Transfer payments—including unemployment insurance, welfare, Social Security, government pension, and veterans' benefits—rose 154 percent more than inflation. Also outpacing inflation were dividends (slightly), personal interest income, wages and salaries, and farm income. Personal rental income, income of unincorporated enterprises, and corporate income all failed to keep up with inflation.

dividends—resulting in a loss in real terms of one percent. On the other hand, personal interest income rose 90 percent.

Corporate profits before taxes, corrected for inflation, fell 11 percent from 1965 to 1975. It should be pointed out that the drop reflected the adverse impact of the 1973-75 recession to a greater extent than in the case of other forms of income. However, corporate profits were shrinking in relation to national income before the recession.

After averaging more than 13 percent of national income for more than 30 years, corporate profits before taxes dropped to only 10.1 percent from 1970 through 1975.

While part of the shrinkage reflected accounting changes, it was mainly the result of the corrosive effects of inflation.

Now for some of the details.

Compensation of employees

In 1975, employees received $921.4 billion in compensation, equal to 76.2 percent of national income. Wages and salaries amounted to $801.6 billion. Other labor income—mainly, supplements to wages and salaries, especially employer contributions to pension and welfare funds—amounted to $119.8 billion.

The share of national income reported as compensation of employees has been rising persistently for decades. During the 1946-49 years, such receipts averaged 65.9 percent of national income.

By 1970-74, the proportion had risen to 75.7 percent.

While the ratio of wages and salaries to national income has varied somewhat, the share of total income represented by supplements has risen steadily—from an average of 3.1 percent in 1946-49 to 8.8 percent in 1970-74.

In general, workers in service industries achieved the largest gains in the 1965-75 decade, followed by public employees. The smallest relative gains were made by employees in manufacturing.

Part of the exceptionally large gains in service industries represented catchup efforts in low-wage occupations. Yet a sizable portion of the increases reflected the impact of inflation and of strong efforts by unions to organize more workers.

Interest income

Net interest—the difference between what businesses pay and receive in interest—has risen significantly as a proportion of national income in recent years. This is a reflection of a dramatic rise in the level of indebtedness in the economy as well as a sharp climb in the level of interest rates. Both of these factors reflect rising inflationary pressures.

In 1975, net interest amounted to $81.6 billion, 6.7 percent of national income, compared with one percent in 1946-49.

Personal interest receipts have also risen dramatically in relation to personal income. In 1975, personal interest income amounted to $120.7 billion, or 9.7 percent of total personal

income. The comparable percentage in the years 1955-59 was five.

Rental income

Owners of rental property experienced the largest relative shrinkage in their share of the nation's income during the 1965-75 decade. In 1975, these property owners received $35 billion in rent. About $13.9 billion of this had to be set aside as capital consumption allowances, reflecting depreciation and other charges associated with the use of property, leaving net rental income of $21.1 billion. This represented 1.7 percent of national income.

Actually, the percentage of total income received as rent by property owners has been declining since the late 1950's. Prior to that, the figure had been rising—to an average of 3.4 percent in 1955-59. This increase had its roots in the post-World War II housing shortage, during which rents rose much faster than national income as a whole.

High inflation in recent years has adversely affected rental incomes in several ways.

For one thing, rent has risen much more slowly than prices in general. Although rent increases once outpaced the consumer price index, the average rise in rent was 4.5 percent in the 1970-75 period, when the average rise in prices was 6.8 percent.

Also, an increasing share of rental income received by owners has had to be set aside to cover depreciation. And the costs of building multifamily housing, which is the principal source of the growth in rental units, have far outstripped the rise in rents.

Under these circumstances, rental apartment construction has been even more sluggish than the depressed housing sector in general.

Against the foregoing background, there appears to be little reason to expect rental income to expand appreciably as a percentage of national income. If anything, the fraction may continue to shrink somewhat.

Farm income

In 1975, farm income amounted to $24.6 billion and represented two percent of national income. The percentage of total income received by farmers has shrunk fairly steadily from an average of 7.5 percent in 1946-49.

This trend reflects the underlying decline in the farm population, which decreased from 17.5 percent of the total population in 1945 to 4.4 percent in 1975. Reflecting the same trend, the number of farms was cut in half between 1950 and 1975, and the number of self-employed farmers dropped in the same period from 4.3 million to 1.2 million.

Nonfarm proprietors

Income of unincorporated enterprises totaled $58.7 billion in 1975. This represented 4.9 percent of total national income. As was the case with the farm sector, the income share of unincorporated nonfarm enterprises has shrunk steadily over the years, from 11 percent in 1946-49.

Increased popularity of the corporate form of business organization undoubtedly explains part of the decline in unincorporated firms' share of national income.

Corporate profits

Corporate profits before taxes amounted to $114.5 billion in 1975, or 9.5 percent of national income, down from $127.6 billion, or 11.2 percent, in 1974.

Organized labor's drive for escalator clauses will spread to new industries, Dr. Brimmer writes. Finer-tuned clauses will be sought.

These data reflect a striking deterioration in corporations' share of the nation's income in the first half of the 1970's. From 1946 through 1969, the proportion averaged 13.3 percent.

Rampant inflation and economic stagnation played key roles in the change.

The sluggish performance of the nation's economy since 1969 has been characterized by fairly low capacity utilization rates in manufacturing. During the first half of the 1970's, only one year saw the rate above 79 percent—in contrast to an average of 88.6 percent in the last half of the 1960's.

When considerable excess capacity prevails, businesses have little protection against rising costs. It is difficult to post higher prices. Fixed costs must be spread over a shrinking revenue base. Although layoffs and shorter workweeks bring some reduction in labor costs, these adjustments invariably lag behind the decline in production. As a consequence, unit labor costs climb, and profit margins are squeezed.

Looking ahead, corporate profits may improve significantly in the near term. In the third quarter of last year, corporate profits ran at a seasonally adjusted annual rate of $150 billion, representing 11 percent of national income. For 1976 as a whole, the percentage might prove to be slightly more than 11 percent. However, little or no further improvement in corporate profits' share of income can be expected over the next few years.

Given the present configuration of national economic policy, below-par operating rates in manufacturing will probably continue through the rest of this decade. Moreover, the persistence of inflation and the steady upward pressure of rising wages will dampen the recovery of profits. In fact, it may be a long time before corporate profits again equal 12 percent of national income.

Dividends

In 1975, dividend income amounted to $32.1 billion, 2.7 percent of national income. This ratio had declined persistently in previous years from 3.4 percent in 1965. Over the decade as a whole, dividends in current dollars rose 68 percent—slightly more than half the gain recorded

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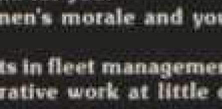

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for total personal income. Since the consumer price index rose 71 percent in the same period, dividends as a whole did not quite keep up with inflation.

To a considerable extent, the poor performance of dividends is rooted in the deterioration of corporate profits. This in turn has led to widespread investor disenchantment with common stock in general, and the behavior of the market reflects it.

Transfer payments

In 1975, about $175 billion of personal income was received in the form of transfer payments. This represented 14 percent of total personal income. In 1965, transfer payments amounted to $40.4 billion and represented 7.5 percent of personal income.

A key element running through all transfer payments—whether they are Social Security benefits, veterans' benefits, payments to retired government employees, unemployment insurance benefits, or welfare aid to families with dependent children—is the fact that they are not linked to current production. Instead, they represent major components of an expanding, nationwide system of income support.

Transfer payments have been the most rapidly rising segment of personal income. This is true even when the substantial recession-induced increase in unemployment compensation is set aside.

Escalator clauses

Recognition of the ravages of inflation has caused a substantial number of American workers to seek formal protection against this robber of their pocketbooks. The most widely followed approach is to index incomes by tying them to the consumer price index.

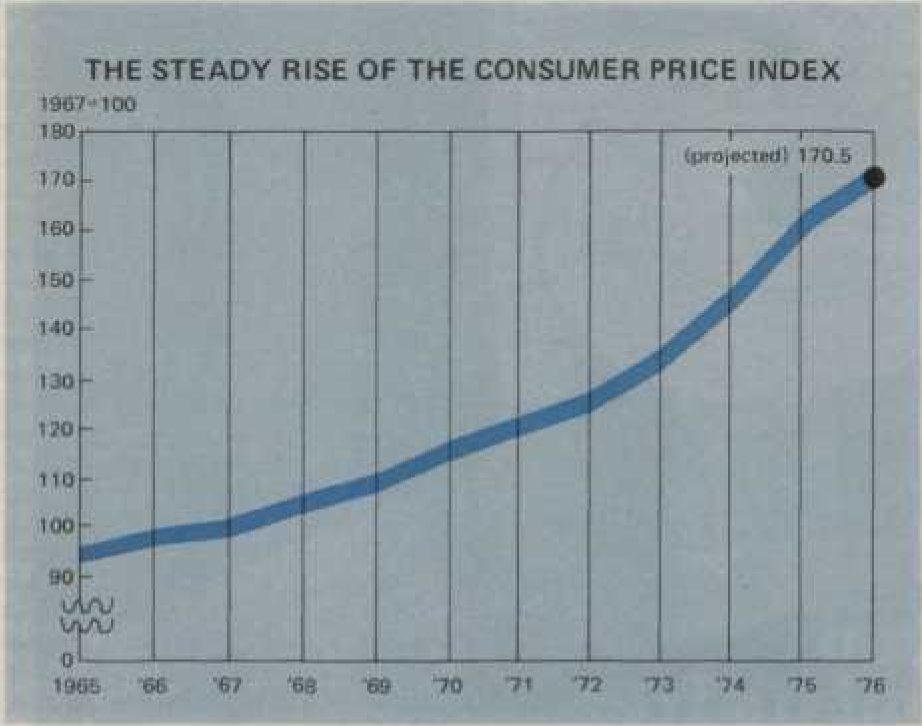
As of 1975, an estimated 5.9 million workers were covered by cost-of-living escalator clauses in major collective bargaining contracts, and unions are pressing for inclusion of cost-of-living clauses in more contracts.

About 51 million additional persons now find their incomes affected directly by changes in the consumer price index.

Just under 31 million Social Security recipients, approximately two million retired military and Civil Service employees and survivors, 600,000 postal workers, and around 17 million recipients of food stamps are in this category. When dependents of these persons are taken into account, the incomes of approximately 100 million people, or nearly half of our total population, are or soon will be linked to changes in the CPI.

How successful have indexing efforts been in providing protection against inflation? A rough idea can be obtained from experience with trade union escalator clauses.

Of the workers under major collective bargaining agreements with escalator clauses, about 2.4 million are subject to the United Auto Workers formula of one cent an hour for each .3-point change in the CPI. Another 1.2 million receive one cent for each .4-point change in the CPI, and the remaining 2.3 million follow other formulas. More than two million of those covered have some kind of ceiling on the amounts they can receive.



Escalator clauses have not completely cushioned the impact of inflation on the wages of the employees covered. For instance, during the 1971-75 years, escalator increases averaged four percent per year, but the annual rise in the CPI averaged seven percent. For last year alone, the CPI rose seven percent, and cost-of-living increases averaged 4.8 percent.

If inflation persists, as seems likely, we can expect escalator provisions to be included in an increasing number of collective bargaining contracts. Moreover, efforts will also be made to link cost-of-living increases more closely to changes in the CPI by liberalizing percentage formulas, eliminating ceilings, and making more frequent adjustments.

We can also anticipate a migration of indexing from heavy industry to sectors where productivity increases are meager or wholly absent. This would shift the distribution of income away from groups unable to win protection against inflation to those with the most power in the labor market.

Also, of course, greater reliance on indexing could give impetus to the high rate of inflation already embedded in this country. □

DR. BRIMMER, *a former member of the Board of Governors of the Federal Reserve System, is now president of Brimmer & Co., Inc., a Washington, D.C.-based economic and financial consulting firm.*

By VERNON LOUVIERE
Senior Editor

A Bank's Drive to Rescue Neighborhoods

WHEN DOUG ADES went to work for New York City's Chemical Bank in 1969, he took two of the bank's top executives on a walking tour of Harlem and introduced them to some of his old friends—street gang narcotic addicts.

Before joining the bank, C. Douglas Ades, a graduate of Union Theological Seminary, ran a narcotics rehabilitation program in Harlem.

Today Mr. Ades is a Chemical Bank vice president, in charge of the bank's Urban Affairs Department. He still maintains contact with old associates who roam the streets of Harlem and other high-crime areas in Brooklyn and the Bronx.

Mr. Ades helped sell Chemical Bank on the idea of creating "streetbankers" in these areas where the bank has continued to operate branch outlets against heavy odds. The streetbanker was to be not an outsider imposing solutions, but someone with a familiar name and face who listened to neighborhood people spell out their aspirations.

Doug Ades became the first streetbanker. Now there are six.

"There is a great deal of hostility and suspicion out there," says Mr. Ades. "I made it clear to the bank that we had to be there eyeball to eyeball, letting those people know we are interested and ready to help where we can."

The two bank executives who joined Doug Ades on the Harlem tour—Donald C. Platten, now chairman of the bank, and Norborne Berkeley, Jr., who is president—are sold on the concept of working to save, rather than abandon, New York City's deteriorating low-income, high-crime neighborhoods.

"We are well aware that we don't have the answers to all the complex problems of New York City," Mr. Berkeley says, "but we do believe that the private sector should strive to play a constructive role in their solution—not only because it is a basic responsibility, but because it makes good business sense to do so."

Shooting baskets with Harlem teenagers is part of C. Douglas Ades's job with Chemical Bank. He helps the bank keep abreast of neighborhood problems.

Since creation of Chemical Bank's Urban Affairs Department in 1971, the bank has become deeply involved in trying to solve some of these problems. It has allocated $100 million to be lent at favorable terms for use in low and moderate-income housing. It has hired more than a dozen ex-convicts; three of them are now tellers. Minority businessmen located in these troubled areas are selling more and more of their goods and services to Chemical Bank.

The streetbanker keeps the day-by-day lines of communication open. Constantly on the move, he calls at schools, day-care centers, police stations, firehouses, doctors' offices, playgrounds, homes, and stores.

"When I started with Chemical Bank, there was this incredible sense of 'we' and 'they,'" Mr. Ades says. "That is less and less true today as we get more deeply involved in the affairs of the community."

The streetbankers helped pioneer lending to nonprofit organizations in New York City. In one early transaction the bank lent a Harlem parents' group $100,000 to help operate a school. In another case the bank awarded a $10,000 grant and approved a $75,000 loan to a community group awaiting $300,000 in city funds to start up a drug rehabilitation center.

"You can bet where they deposited that $300,000 when it finally came through," Doug Ades says.

Chemical Bank was ready to write off one of its branches in the Bronx. Business customers were fleeing the neighborhood. The bank's employees, frightened by soaring crime, were threatening to quit. However, closing the branch would have been a blow to many customers, who live on pension and welfare assistance and have nowhere else to turn in the neighborhood to cash their checks.

A streetbanker moved in to help save the branch. A call on the Bronx police commander had immediate results—foot patrols were sent into the neighborhood to "show the blue." The bank learned that the city was planning to upgrade street lighting in the area, so it contributed $500 for an architect's plan to speed the project along.

The branch is still in operation. •

continued on next page

Letting the Employees Set Their Own Salaries

Would you believe a small business that lets employees set their own salaries, working hours, and vacation schedules?

Arthur Friedman, then co-owner of a general appliance store in Oakland, Calif., established such a policy six years ago, and the business not only survived, but thrived.

Since then Mr. Friedman has started a new business—a chain of small stores selling microwave ovens—and the same policies apply.

All his life, Arthur Friedman says, he has lived by a philosophy which holds that "people will be whatever you want them to be; if you trust them, they will be trustworthy." So one day he called in the 15 employees at the appliance store and said:

"From now on you are going to be responsible for your own jobs, salaries, and working conditions. I trust you completely, and I will give you whatever you ask for."

Was there an immediate demand for higher pay, fewer working hours, better working conditions? On the contrary.

On the question of salary, one worker said: "Well, all I want is what the other guys want."

Another said: "I only want what they get at Sears."

Two servicemen settled on different salary levels. The one who took the lesser salary admitted: "Well, I don't want to work as hard as he does."

When the payroll clerk appeared to be having a bad day, Mr. Friedman told him: "Stan, apparently you're not in a good mood today, or you don't feel well. So take $50 out of the cash drawer and have yourself a good time."

The clerk took the money, walked out of the office, and was back in a few minutes. He returned the $50 to the cash drawer and told Mr. Friedman:

"I changed my mind. I have too much work to do."

Arthur Friedman is not sure his unusual approach would work elsewhere, but it has worked for him. He says his employees have told him, in effect, that they don't want to take advantage of him because they don't want to put him out of business.

Mr. Friedman sums up: "All I know is that we did our thing, and 15 families have eaten well off the business." •

Polish Farmers Learn About Free Enterprise

Polish farmer Tadeusz Statkiewicz takes a turn at the tractor on a 600-acre dairy farm in Illinois. He is shown with his host, Boyd Tombaugh. Poles are learning U. S. agricultural techniques in the course of 13-month visits to a broad range of American farms.

Some 300 farmers from communist Poland are being exposed to the way private enterprise operates on American farms.

Under a program sponsored jointly by Massey-Ferguson, Inc., of Des Moines, and the National 4-H Council, the first 100 Poles arrived in this country last April. They are spending 13 months working and living on farms in 14 eastern and middle western states.

The Poles are paid approximately $400 a month plus room and board. They live in the host families' homes or in nearby houses on the farm properties. In general they are treated as members of the family—eating with their hosts, going to church with them, attending state fairs with them, and even traveling on vacation with them.

Although most of the Poles speak some English, they are given a cram language course at the Experiment in International Living Center in Brattleboro, Vt., when they arrive. Then U. S. government representatives accompany them to the host farms.

The visitors are matched with farms which appeal to their specific interests. Some pick dairy farms, some choose beef-raising operations, and others are attracted to horticulture.

Although most major farms in Poland are state-controlled, about 80 percent of all Polish farms—usually 15 to 20 acres—remain in private hands. The visitors come from both types of farms as well as from teaching institutions.

The National 4-H Council has been sponsoring a farmer exchange program since 1968, but not on such a large scale. International Harvester Co. helped finance a visit of 15 farmers from the Soviet Union last summer.

During their stay in America the Polish farmers—who range in age from 20 to 30 and include some women—tour model farms and attend agricultural seminars at state universities. They devote most of their time, however, to on-the-job training at the host farms.

American farmers say they are pleased with the arrangement. They, as well as the visitors, receive benefits from the program.

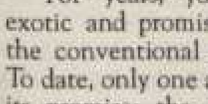
One of the visitors is Jacek Korwin-Kossakowski, who arrived last April at Frederick Owen's 1,000-acre dairy farm in Homerville, Ohio.

"Jacek is an excellent student," Mr. Owen says. "He absorbs everything I tell or show him. His visit has helped me to get better organized because I want to be sure I give him the best information available." □

The legend continues...

Introducing the world's most sophisticated Diesel passenger car. The new Mercedes-Benz 300D.

The new, 5-passenger Mercedes-Benz 300D—the state of the Diesel passenger car art.



Here is a most ingenious alternative to the conventional automobile. A truly remarkable new Mercedes-Benz. With a contemporary new look. With ample room for five people, an astonishing 5-cylinder engine and an unusually complete array of luxurious appointments and safety systems. The new 300D. The most sophisticated Diesel passenger car the world has ever seen.

For years, you've heard about exotic and promising alternatives to the conventional automobile engine. To date, only one alternative has kept its promise: the Diesel engine—for over 60 years, the most efficient combustion power plant in use.

Now Mercedes-Benz has synthesized its proven, 5-cylinder Diesel engine with new, technologically advanced body design, suspension, steering and safety systems to produce the most ingenious alternative to the conventional automobile.

A matter of taste

Though only a trim 190.9 inches from bumper to bumper, the new 300D is an honest 5-passenger sedan. The secret of its spaciousness lies in new Mercedes-Benz technology that puts the room in the car *in* the car—without adding bulk or sacrificing safety.

Enter a new 300D and you're surrounded by a complete array of security and convenience features. All are standard equipment. Such things as cruise control, bi-level climate control, electric windows, AM/FM radio, central locking system, 3-speed windshield wipers.

The new 300D is not an exercise in opulence. But it does exhibit meticulous taste. And as your senses will tell you, there's quite a difference between the two ideas.

Sports car handling

The new 300D is one of the most sparkling road cars Mercedes-Benz has ever engineered. Its sophisticated power train, suspension and steering are those of a sports car. And that is why the new 300D handles like one.

The new 300D's unique, 5-cylinder engine is the most powerful, the smoothest Diesel yet engineered into a passenger car. But you pay no penalty for this performance bonus. The EPA estimates that the new 300D should deliver up to 28 mpg on the highway, 23 mpg in town. (Your mileage will depend on how and where you drive and the condition and equipment of your car.)

The state of the art

For over 40 years, Mercedes-Benz has pioneered many of the major advances in Diesel passenger car engineering. The new 300D is the culmination of that experience. It is the state of the Diesel passenger car art.

Test drive the new 300D. Experience the most ingenious alternative to the conventional automobile. The most sophisticated Diesel passenger car in the world.

Mercedes-Benz

Engineered like no other car in the world.

Lessons of Leadership

Figuring Out What Consumers Want

George Foerstner, who started in business in 1934 without a single full-time employee, tells how Amana Refrigeration has been so successful in the face of devastating competition

GEORGE C. FOERSTNER does not have far to travel when he goes to work in the morning.

His 19th century home sits on a hill in the tiny Iowa village of Middle Amana, overlooking the main factory of the appliance manufacturing company he founded and heads, Amana Refrigeration, Inc. The factory is in a hollow across a road, perhaps 100 yards away.

Mr. Foerstner, whose office is in an executive wing of the factory building, may travel only 100 yards in the morning, but he has taken his company a long way.

He founded the firm in 1934 without a single full-time employee. In its early days an enterprise that made beer coolers for taverns, the company branched out over the years into refrigerators, freezers, air-conditioners, microwave ovens, heat pumps, and other products.

Many companies that once were big names in the appliance field have been forced to leave it. The competition has been tough—but not too tough for George Foerstner.

In 1965, Amana Refrigeration's sales totaled \$25 million. In 1975, the comparable figure was \$195 million. Last year, sales were \$282 million.

Since 1965, Amana has been a subsidiary—a largely autonomous subsidiary—of Raytheon Co. and has

been a jewel in Raytheon's profit crown.

How has Mr. Foerstner achieved such success?

Listen to what various executives who know him well say:

"He is a genius in his ability to read the marketplace—to know what product to introduce when."

"He is curious, innovative, constantly searching for a better way to do things. He takes a personal interest in every little detail."

"He has built a tremendous executive team."

"He is almost a fanatic about quality of product."

"He is a whiz at holding down costs."

"He is so competitive that I don't think he can brush his teeth without playing one side of his mouth against the other."

Christian communism

To understand George Foerstner, you have to understand something about his background.

The village of Middle Amana is one of seven villages in the Amana Colonies—a settlement of German, Swiss, and Alsatian members of a church called the Community of True Inspirationists. (The name Amana is of biblical origin and means "remain true.") The church bought 25,000 acres of rolling eastern Iowa countryside in 1854 and added another 1,000 acres later.

On that land, church members lived a life that has been called Christian communism. It was all for one, one for all. People worked on farms and in a woolen mill, meat-smoking plants, and wineries, with income going into one communal pot. There were community dining halls, and families shared houses.

In 1932, during a Depression period when many predicted a dire future for capitalism, the church members decided private enterprise would give them a better way of life. They formed a corporation, the Amana Society, with members owning stock. Homes were sold to individual families. Incomes from work at the society's businesses and farms varied according to merit and effort, and dividend income varied with the number of shares held. Also, some members of the church, such as young George Foerstner, went into business for themselves.

Overall, the seven Amana villages, which have a total population now of 1,700, are suffused with the work ethic and the Christian ethic. Both ethics have been fundamental to George Foerstner's life.

At 68, Mr. Foerstner puts in a long workday, and he has no plans to retire. He golfs frequently and well when he is at his vacation home in Bal Harbour, Fla., where he goes at times of the year when allergies trouble him. But while he is in Florida, he constantly telephones Iowa.

His son-in-law, Alex A. Meyer, is executive vice president of the company, and his son, Richard, is a vice president. George Foerstner "is a tougher taskmaster to them than he is to other people," another executive says.

Honesty is something Mr. Foerstner insists on in his business. Sleazy business tactics disturb him deeply.

Amana Refrigeration has more than 2,800 employees at its plant in Middle Amana, only a tiny fraction of them members of the Amana Society. The company also has more than 1,500 employees at a plant which it opened ten years ago in Fayetteville, Tenn., and more than 200 at company-owned wholesale distributorships which serve eight key markets.

The company is unionized and has not been immune from labor troubles. Yet there is a warmth between management and many in the labor force that stems from long years of friendship and mutual effort.

First-name basis

When George Foerstner goes through the Iowa plant, numerous workers greet him by his first name. He returns the compliment.

Mr. Foerstner is also on a first-name basis with hundreds of retailers and independent distributors who handle Amana products. He takes a protective attitude toward the distributors, trying to ensure that they are successful.

"I can be tough in giving distributors advice," he says. Some of the recipients of that advice have become millionaires.

Mr. Foerstner, as president of Amana Refrigeration and one of the largest stockholders in Raytheon, has become a millionaire, and then some, himself.

In this interview with a NATION'S BUSINESS editor in Middle Amana, he explains how that happened.

Mr. Foerstner, to what do you attribute your company's success?

There is a simple answer—the people we have in management. It is my firm belief that the people make the company. You must have good, dedicated people.

How do you go about getting good, dedicated people?

You take them fresh out of school, and you raise them through the ranks. For example, almost everyone in our purchasing department used to be with us in the factory.

> "You have to find out if the product is liked by the people who own it."

Of course, promotions do not always work out. If you move a person forward, you have to be prepared to learn that he is now in a job he can't handle. You have to be prepared to sit down with him and say: "Look, we gave you a job, but you don't fit." And you have to move him backward or sideways.

Is it not true that some of your executives have been offered much higher salaries elsewhere but have stayed with you?

Mr. Foerstner is a strong believer in cultivating good relations with those who sell his company's products. Amana annually puts on a professional-amateur golf tournament at which retailers have the privilege of playing with famed pro's. Here Mr. Foerstner chats with U. S. Open champ Jerry Pate at last year's tournament.

I believe that is probably true.

And why would that be?

Loyalty. The integrity of the company. The opportunity to grow.

These people know that if they stay with Amana they will have a bright future. Keep this in mind: During the so-called recession, Amana increased its labor force.

Executives like growth. They like profits. They like to be on a winning team.

You are very big on the teamwork concept in management, are you not?

That is right.

So much so that executives are supposed to try to avoid using the pronoun I in company correspondence?

Yes. The word frequently has no place in a business conversation, either. It is not really the individual who accomplishes many things in business. It is the company. The individual is part of the team.

Some people have an awful habit of saying: "I built so many units. . . . I built this and that."

I say to them: "You did not build anything. The company did."

You have been described as a man who stays exceptionally alert to consumer demand. How do you do it?

First of all, we think any product must do something for the public—must be of consumer benefit. It must make sense to the public, and it must make sense to you before you can sell it to anybody else.

Also, you have to find out if the product is liked by the people who own it. There is no future for a product if a purchaser does not like it as well after having it for a while as he did before.

How do you find out if the consumer is happy with the product?

We do a pretty good job of staying with the consumer, through our Customer Service Department. There are nearly 80 people in it. They are constantly making surveys.

Also, we personally stay in touch with key retailers. We do not think we have to talk to thousands of retailers. We can talk to eight or ten and get the answer to how well accepted a product is.

Were you not a friend of the late, great football coach, Vince Lombardi of the Green Bay Packers and Washington Redskins?

Yes. He was a tremendous person.

Has his philosophy about winning at football affected your philosophy about running a business?

Vince Lombardi said this to me: "George, what we do, we try to do better. We work at doing better what we know best."

That can be applied to any business. I have used that story many times at the company. I say: "Look, don't get any new gimmicks going. Work at what we do best."

Do you have a policy about company diversification stemming from this type of thinking?

We keep this in mind: The Amana line must be profitable to our distributors. So any diversification must fit our present distributors, must be an asset to them.

If a distributor has a product that he is already doing well with, bringing a similar product out under the Amana label would not help him.

The Radarange microwave oven is an example of a new Amana product that was a plus for our distributors. And it has been a tremendous success for us. We had never planned to get into microwave ovens, by the way.

How did you get into them?

The Radarange oven was a Raytheon Co. invention that dated back to World War II days. But the marketing of it was developed only to a limited extent.

When we became part of Raytheon in 1965, Thomas L. Phillips, Raytheon's chairman and chief executive officer, and I went over their various businesses. They were making microwave ovens for the commercial market—restaurants, institutions, etc. They had also licensed the use of Raytheon patents to several manufacturers to make models for consumer use. Raytheon did not have a marketing organization for consumer products.

We checked with about ten dealers who sold microwave ovens and asked why they did not sell many. Too expensive, they said.

We asked about the customers who had the ovens. Did they like them? The dealers said yes.

Then we asked Raytheon: "Why do these ovens sell for $1,200?" The answer: No volume.

Now, how do you get the price down on something that has no volume when the high price is the reason you do not have the volume?

We checked with dealers and asked: "Suppose that the unit were 115 volts, it sat on a counter, and it

sold for $500?" The dealers said it would sell.

So Tom Phillips and I told ourselves: "We will tool the thing the way it ought to be tooled, design it the way it ought to be designed, sell it for $500, and take an awful beating financially."

You sold the product at a loss?

The first units were sold for $100 below cost. We considered this an investment in determining whether the time was right for a microwave oven. You may recall that when color television was introduced, several years went by before it took off.

We decided to sell only in Chicago, initially. By limiting the area, we could give our sales drive all the advertising that was necessary.

I said: "You have to get the dealers, you have to get people to demonstrate the ovens. Because how do people know about cooking in a microwave oven? They don't know."

And we engaged dozens of demonstrators. At any store we went into, we furnished a girl on the floor. We did all the advertising.

In August of 1967, we had a tremendous press conference at the Mid-America Club in Chicago, to start our promotion efforts.

You know how far we went in promotion? We rented a railroad train that made stops at communities throughout the Chicago area. We would have advance people go into, say, Waukegan, and tell the women's club we were coming. And the women would get on the train, and we would show them how to do microwave cooking.

The upshot of this was that the Radarange went over big?

Yes, and the same thing happened elsewhere. We did similar promotion work when we introduced it in other areas. In other words, we introduced the Radarange oven slowly, but in the right way.

Amana Refrigeration now is the biggest producer of microwave ovens, by a wide margin.

I understand that, despite your responsibilities as head of a major company, you sometimes take time to personally deal with individual consumer letters and phone calls.

I do, depending on when I am in the office and how busy I am. I don't mind talking to a consumer. I learn things.

The home phone numbers of some chief executives are unlisted, but yours is in the phone book. Do you get calls at home from the public?

Yes, and a lot of them are unusual. For instance, my wife and I were just going out to dinner on a Saturday night, and I got a phone call from a radio executive in Las Vegas.

He said: "I think I have an Amana central air-conditioning system. There is no name on it, but it looks like others that have an Amana label." He could not get service because the unit was nameless.

I told him we would look into the matter. It turned out that thieves were going into housing projects in Las Vegas where there were a lot of unsold homes. The thieves would steal air-conditioning units, take the labels off, and then peddle the units. Somehow, this guy wound up owning one of these units. It was an Amana product.

> "It is not really the individual who accomplishes many things in business. It is the company."

Did you take care of service for it?

Yes. Our dealer out there did not want to service the unit. He said: "There are no numbers on it anyplace." And I said: "What difference does that make? It is an Amana unit."

How important is it to monitor what your competitors are doing about prices, design changes, and new products?

Frankly, I do not pay too much attention to what our competitors are doing on pricing. Often, I don't know what they get for their products. I take this attitude: You can be misguided if you look at a competitor's pricing. He might be on a one-way street going the wrong way, or he might be heading for a dead end.

However, we are very interested in the quality of their products and in any innovations they make. We constantly buy competitive units and examine them to see what features they have that we like or dislike.

It has been Amana's philosophy to build the best possible product at the lowest possible cost. And if an engineer or anybody in management comes from a competitive company to work for us, we make sure they immediately have that philosophy.

You are known for keeping overhead down as much as possible. What are some of your techniques?

Basically, I try to make everybody conscious of overhead from morning till night, seven days a week. I do not think I have ever held a company meeting in which I did not talk about costs.

Constant attention to costs pays off. We have managed to keep overhead from rising in proportion to the increases in our sales. In fact, our overhead per sale has dropped.

Do you suggest specific cost cuts to your executives?

Yes. Just this morning, I criticized some of our people about some of the cars that we furnish to our salesmen. The cars are too expensive. Also, they are two-door models, and when it is time to get rid of them, there is not as much demand for them as for four-door models.

Another point about overhead: One mistake too many people in business make is that they take on too much overhead before they get their revenue. A fellow I know had just opened a beautiful restaurant. I said: "How many employees do you have?" He said about 75 people were on the payroll. And I said: "You have 75 people, and you haven't even sold a sandwich yet."

Is it true that Amana builds a larger proportion of parts for its product than any other appliance maker does?

No question about it.

How do costs enter into that picture?

Today you have to save a penny here and a nickel or a dime there. If you keep getting parts made on the outside for every product, even if the parts only cost ten, 15, or 20 cents extra, look what happens to your cost.

So it is our idea to make more and more of our parts. However, we are not going to make everything—motors, for example.

Amana's sales have gone up perhaps ten times, and the number of Amana employees has increased from 1,100 to 4,500 since you joined Raytheon. Yet you have basically the same size

> "Constant attention to costs pays off....Our overhead per sale has dropped."

management staff. How have you kept the management staff so lean?

Well, management does not make products. We have not added departments; departments have grown. We have many more engineers, but that does not mean we need more engineering managers.

Also, we traditionally have made an effort to keep our management staff very lean. We do not like to get complicated—we do not have many interoffice memos. Some companies have people at the highest levels doing nothing but writing memos back and forth.

At the same time, we like to have our managerial level people know what is going on. Every department ought to know what every other one is doing.

How do you make sure that happens?

One thing we do is hold a staff meeting every Monday morning. About 21 people attend. We just

kind of chew the fat for about 45 minutes.

We want engineering to know what purchasing is doing and purchasing to know what engineering is doing. At these meetings, everyone learns.

This is very important.

Engineering might come in and say: "Look, we are working on this, and we might have to make a change here, and we might have a problem there."

This immediately alerts purchasing: "We had better be careful so we do not get that part in quantity."

Let me give you an example, at another company, of people inside not knowing what is going on.

This company wanted Amana to buy them. They asked us to come and take a look at them.

Their general office was in a big office building in Chicago. And while we were there, a guy walked in and said: "You know, we signed another five-year lease here last week."

The guy who signed the lease did not know they were trying to sell the company.

We walked away from the deal. I said: "There must be an easier way than that to make a nickel."

You are known for putting a great deal of effort into quality control. What are some of your techniques?

We carefully inspect parts that we buy from other companies. There is no sense in putting a part into a product and then finding out it is no good after the product is finished.

Also, one in 16 people in our factories is a quality control person. You need inspectors here and there.

These quality control persons are independent of factory management. They report to their own superiors, not to the people who are in charge of production.

In our plant downstairs, there is a place where we display products that came out that day. We point out good products and bad products.

We check every single item, by the way. We do not just spot-check.

In spite of all this, of course, we have had products which have given us trouble in the field. Every now and then, there are problems that you just cannot discover ahead of time.

I understand that when you once spotted a pinhole where the paint had not taken on an appliance, you ordered the whole appliance sandblasted and repainted rather than touched up.

If you touch up, you don't get a good finish. Sloppy work gives all of industry a bad image.

Mr. Foerstner, you left school at age 13. Why?

Well, I was through the eighth grade—that was basically it. In those days, among the Amana people, your education ended with the eighth grade unless you were to be a doctor, a dentist, or something like that. Anyway, I liked going to work.

Have you found your lack of formal education a disadvantage in business?

Naturally, it has been a disadvantage. I am very much in favor of a college education.

At the same time, I have had the advantage of being in business more years at an early age. I no doubt learned something in business that I would not have learned if I had gone to college during those years.

How did Amana Refrigeration get started?

It got started like most companies get started. You make a product and sell it, and if you can sell another, you do it again.

I had been selling woolens from the Amana Society's woolen mill. I was a full-time salesman at 15, you know. I was always a good salesman—I knew how to sell.

Well, the Amana Society had an automobile accessory business that had more or less gone by the wayside, and a few radios and other appliances were sitting in a warehouse. I tried to sell them in my spare time.

When Prohibition ended, in December, 1933, all of a sudden there were taverns in need of coolers for beer storage. I decided to make a cooler, with the aid of workmen here. I sold that one to a man to whom I had sold appliances. Then we made another cooler. And another. Then I decided to leave woolens sales and devote my entire time to coolers.

I went into business for myself. That was in 1934.

Did you have any capital?

I had saved about $3,500. I was 25

then and had been working, of course, for a dozen years.

What happened next?

The business grew, and the Amana Society wanted it. I sold it to them, in 1936, because that seemed only fair. After all, I had gotten my start through their merchandise.

Later, the Amana Society sold the business back to you?

Well, the business continued to grow, and the society had not visualized that kind of growth. Some of those fellows thought: We have made this profit, and we could lose it. They wanted to cash in their chips.

So I organized a corporation, effective Jan. 1, 1950.

Who were the other shareholders?

The basic shareholders, in addition to myself, were people who had grown up with me here in the Amana Colonies—employees and a few friends. Plus Howard Hall, a Cedar Rapids businessman. He helped me put the company together, and he became president. He passed away about five years ago.

A feature of Amana quality control is a booth near the main company plant's production lines. Displayed for a day at the booth, so all workers can see them, are products which do not pass inspection by quality-control personnel. Often these inspectors, called customer's representatives, find no defective products.

Why was the company later sold to Raytheon?

When you are a privately held company and you are growing, you have problems. We had about 50 stockholders.

What do you do when a major stockholder dies? You can't pay his family a fair price for the stock. Where does the company get the money? The company can't raise money by selling stock to the public.

In 1962, our vice president for manufacturing was fatally ill with cancer. One Saturday, our treasurer went to visit him to cheer him up. Then our treasurer went home. He walked in the house, and he dropped dead. The fellow who was dying of cancer lived longer than he did.

Now we had two key people missing. And virtually all the investments of these two people were in Amana stock. My life's savings were basically in the business, too.

We had to do something about this type of problem. We made studies. We did not rush into anything.

And you decided on a merger with Raytheon?

We had three choices: Stay a privately held company, which obviously was inadvisable; merge with somebody; or sell stock to the public.

We concluded we could not go on the market on our own. For one thing, if you go on the market, you have to have a lot of stock available. And people who held our stock did not want to sell it; we wanted to keep our own company. Second, to go on the market with a company, you have to have a good dividend base. We did not want to raise dividends, because we wanted to save our capital for growth.

So we decided we should merge with somebody.

We felt that if we merged with an appliance company, we would become mainly a manufacturing facility for somebody else. The Amana name would no longer exist. We would no longer be independent.

And Raytheon, essentially, was not an appliance maker.

Correct. Raytheon at that time did approximately 90 percent of their business in the military field.

That was why we and they were a fit. Business cannot be a one-way street. We could do something for them—they had to get away from their dependence on military business. At the same time, they could do something for us. We felt that we could be a company on our own, as their subsidiary.

The merger was effective Jan. 1, 1965. Things have worked out exactly as we intended. The Amana name, and all that we had worked for, stay as they are.

And we have the growth. We have carved ourselves, we like to think, quite a niche in the appliance business.

You are a crackerjack bridge player who was a partner with the master player, Charles Goren, in TV appearances some years back. What do you particularly like about bridge?

Good bridge is very competitive. And I like competition. That is why I like business. It is fun because of the competition.

How about when you lose?

We try not to lose. □

REPRINTS *of this article are available from Nation's Business. See page 58 for details.*

YOURS FREE

A GIFT FROM THE RICHEST MAN IN THE WORLD

THE LATE J. PAUL GETTY

MY FRIEND,

I'm getting old , and I don't have much longer to live. Unless I do this now, when I go the secret goes with me.

What I am about to give you is KNOWLEDGE...the knowledge that men have been searching for since time began.

I used to be an ordinary man. I spent the early part of my life stumbling in the dark, trying to find a way to make all the dreams I had as a young man come true. I wanted, like most young people, to be wealthy, admired, respected. I wanted love and happiness. I also had many questions about life and I wanted some answers. Yet, no matter how hard I tried, everything always seemed to be kept from me. As though it was all hidden in the very next room, a room whose door was impenetrable without the right key.

After years of being kept from those things that I wanted most in the world my spirit could have easily broken if I allowed myself to become consumed with failure and rejection. Little could I know then how lucky I was for this to have happened to me. For something grew inside me that would not let me rest until I found the answers that would bring me all the things I so desperately wanted.

This was the beginning of a search that would become an obsession. To find the knowledge that I so desperately longed for and knew must exist somewhere. The inspiration of the great men of the past took much of the torment away. The multimillionaires and recluse billionaires that seemed to have the world at their beck and call. The men that were able to control the very destinies of nations. How they held respect and admiration, how they were rich and powerful but not me, never me. What did all these great men have that I didn't? I knew there must be an answer and I dedicated my life to finding it; because I knew there could be no true life for me until I did.

I started to read, to do research into the past. I spoke with and studied of the richest, the most powerful, as well as the wisest men of my time. I read every possible piece of literature that I thought would hold a clue. I delved into the oldest recorded writings of the ancient civilizations. I studied and I learned. Trying almost insanely to put all the pieces of this great puzzle together. I kept asking myself, what did these men have? What did they have that I didn't and how could I get it?

I involved myself in all sorts of situations trying to put into practice what I had learned. I traveled with the hope that the answers might somehow lie beyond the horizon and though I didn't find them there, I know now that the proverb, "Seek and ye shall find," couldn't be more true. *For when the answers were finally revealed to me they came in a way that I could not directly attribute to any place I had been or any individual effort I had made to find them.* It was as though my mind had crossed into a new frontier, a frontier that I was certain relatively few men had ever gone into before. Suddenly I saw the whole world differently, what seemed confusing before I could easily understand. What was unobtainable before suddenly became easy to get. The things that people saw one way I saw differently as though I could detect more aspects of the same thing and thereby see it more clearly or as it truly was. I had an undefined power that gave me an advantage over everything I did. After a while I realized that I was very different from before. I was at last the way I wanted to be. I had learned what I wanted to learn and was at long last able to live the way I had dreamed and knew it was possible for a man to live.

The late J. Paul Getty standing in the courtyard of his home at Sutton Place, London. The knowledge, wisdom and experience of this great man is now yours to share, as he intended you to. But it's up to you to make the decision to accept it.

It is written, "Once in a thousand years a man lives a dream." For the last third of my life that is exactly what I have done. I have lived with more wealth and power than any man could ever want. I have done almost everything that I have set out to do. I doubt if there has been a man who has lived a more fulfilled life than I. But now I have only memories. This, in my opinion, next to life itself, was the greatest gift that a man could be given. But now I have come to realize that if I don't share this knowledge now I may never get another chance to do so. I now know that I am obligated to share it and in the end this was the way the fates had destined it to be.

I would like you to have my secret, but you'll have to realize that this ad will be read by many people, many whom I do not know but a few will be chosen to carry on for me after I am gone. I have written what I have learned and published it in a special limited edition book that contains only 344 pages. I have titled it "The Secret of the Ages." I want you to own a copy of this book that is specially bound in library-type binding, but I want you to pay for it. I want you to send me a check for twenty dollars that you may even postdate up to thirty days to eliminate any doubt as to its value and to give it a chance to prove its worth to you.

The reason that I am asking you to pay twenty dollars is that I want to make sure that you read it and I feel that if you paid twenty dollars for it, then it will be read.

With my book, I will also send you a book written by the man who was renowned as the richest man in the world, a man whom I've had great respect and admiration for, the late J. Paul Getty. His book is "The Golden Age." I have bought at great expense, the rights to publish this great book after Jean Paul's recent and sad departure from this world. I have also printed it in very limited quantities. The book is bound in special library-type binding that should allow it to last for generations to come.

I feel that it is essential you read, along with my book, the message that Jean Paul wanted you to learn...and acquire the truths that took the richest man in the world his entire lifetime to learn.

Therefore, I am making you the following offer: If you feel that after reading my book it is not worth many times more than the mere twenty dollars you've paid for it, then send it back to me and I will return your uncashed check immediately. Not only that, you can keep J. Paul Getty's book "The Golden Age," for your trouble. You can lose only if you do nothing.

If you want to own these two books, write on a blank piece of paper the words "Send me the books," along with your name and address. Mail it along with your check, that may be postdated up to thirty days, to me, Robert G. Collier, in c/o Collier Book Corporation, Dept.NB 2, 531 Wyckoff Avenue, Ramsey, N.J. 07446

P.S. Both of these editions are bound to become collectors' items in the years ahead. Their inherent value will no doubt increase with time...making them an excellent investment as collectors' items.

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Management Know-How

How to Reduce Dependence on the Boss

Delegation involves risk, but the rewards are great

BY DR. THOMAS W. ZIMMERER

THE CONTEMPORARY business world is constantly striving for something new in management techniques. Often, however, knowledge gained from the past is not adequately applied.

The earliest histories of management relate the advantages obtained through delegation. The need for delegation is a natural outgrowth of man's attempt to get organized. Today, however, the amount of real delegation is substantially less than it should be or is thought to be in many businesses.

Delegation is more than simply asking or telling others to do a job. It is the process of entrusting objectives, functions, authority, responsibility, and accountability to subordinates. Nor does delegation represent abdication of management or lack of it. On the contrary, most successful executives consider delegation to be a primary function of their positions.

Why delegate?

Delegation involves taking risk; but to some degree, all management means taking risks. The executive who believes that by acting alone he can eliminate error is simply not working in the world of reality. The key to successful delegation is minimizing risk by delegating to the right persons.

Failure to delegate is a trait often found in a manager who can't trust other employees to do their jobs. This manager frequently feels very insecure in his relationship with subordinates. He manifests this insecurity by attempting to do everyone's job to ensure that it is "done right."

ILLUSTRATIONS: FORD BUTTON

"The earliest histories of management relate the advantages obtained through delegation."

However, in so many of today's business organizations, it is impossible for a manager to be technically superior to all employees. A manager who attempts to maintain his or her technical ability usually does so at the expense of learning and practicing good management techniques.

The greatest waste of resources in a business is often the waste of human resources. A staff which is not used at its optimal capacity, because of a manager's failure to delegate, is a major loss to the organization.

Wear and tear

Trying to do everyone else's job has another serious consequence. It causes great wear and tear on the manager. Organizations trying to reduce executives' tension and to improve the use of executives' time must emphasize effective delegation of work.

All executives have the same amount of time in the day. What is most critical is how the time is used. Managers should spend their time doing managerial work and not trying to perform the duties of their staffs. Delegation helps to improve the quality of what is done by spreading the work out to a greater number of people.

Making better decisions

At what point in a manager's career should he or she begin making decisions?

If managers at the lower levels of an organization are not given the opportunity to exercise control over the problems they face and the people they manage, how can they be prepared to make decisions when they reach a higher level? It seems more logical to have managers begin their training by making decisions early on smaller problems. In such cases, an error in decision-making can be more easily corrected, and the cost of an error is substantially less.

On a positive note, success in mak-

ing decisions at this level improves a manager's confidence and enables him to solve graver problems when his responsibilities are increased.

Delegation of decisions helps to create good future decision-makers.

Surveys indicate a growing feeling of alienation between employees in industry and the organizations for which they work. More and more of those polled report a feeling that their jobs are of diminishing importance to them. In many larger companies, a gulf often exists between those who perform the everyday work and those who make the decisions.

Control of their destinies

Delegation gives employees a greater sense of control over their own destinies. This opportunity for control is in itself a source of motivation and a source of job enrichment. An enriched job is one which emphasizes a greater involvement of each employee.

With enough delegation, the emphasis in work goals for employees shifts from doing more to doing better. Employees now believe that their role is critical to the success of the group's objectives. There is an opportunity for each employee to grow in the job. Achievement and recognition—both key motivators—become an integral part of the job.

All this may sound a little fanciful, but most of the changes which have taken place in society over the past few decades once sounded fanciful, too.

Management practice must respond to the cultural, social, and technological changes in society. Management practice is not in revolution, but it must always be in evolution.

All the millions of dollars spent yearly on training are wasted if the persons trained never get an opportunity to put their new knowledge into practice.

Delegation serves to convert the training into productive work behavior. If a company has a policy of promoting from within, the company must maintain an active management training program. That is the only way to ensure that seasoned managers are available when openings for them appear.

Training, balanced with experience that comes from decision-making, is the best way to produce a new generation of capable managers for the organization.

When to delegate

Here are some principles to follow on delegation:

• *If something is to be done right, delegate.*

One of the first signs that you should review your work habits is that you can no longer find time for the work to be done. Normally, this means you have taken on extra work that should be delegated. The old saying, "If you want something done right, do it yourself," is bad advice. It should be changed to: "If you want something done right, delegate."

Managers should trust subordinates to do the work for which they were hired, so that the managers have time to manage. Otherwise, several things begin to happen. Important work is not given the correct priority, and the lag time between the need for action and the decision-making increases.

In addition to that, coordination with other departments and within the group deteriorates, because one person is trying to do all the decision-making.

A manager who tries to do everything himself is bound to fail at the most important job for which he was hired, managing.

• *What do you mean, my subordinates know more than I do?*

Many managers cannot face the fact that a subordinate may have greater technical knowledge than they do. These managers frequently become resentful of a particularly skillful employee. Instead of using the subordinate to the highest capacity, a resentful superior may bury the lower-level employee through isolation or neglect.

To neglect and waste the talents of any individual is as criminal as misuse of company funds or equipment.

Unfortunately, few managerial audits will identify the type of manager who wastes human resources.

New executives must learn to recognize that promotion requires changing their orientation from individual accomplishment to group success. Subordinates who are technically more knowledgeable than the boss should be given the opportunity, through delegation, to use that knowledge to improve the group's decisions and performance.

• *What is this job all about?*

The first step in delegation is to entrust the subordinate with the objectives of the job, the whys behind what is done.

Delegation will never be completely successful if the subordinates in-

"Managers should trust subordinates to do the work for which they were hired."

volved do not clearly understand the purpose of what they are asked to do.

In today's complex business organizations, many employees—and even managers—do not really know what the organizations are trying to accomplish. This is the reason so many managers reply to the question of "why?" by saying: "Don't ask; just do the work." This answer will not motivate anyone.

Many companies have experienced remarkable success by opening an honest dialogue among all levels of the organization to keep employees fully informed about company objectives. Some companies advocate complete management by objectives. Under that approach, managers give

"Complete the cycle by tying rewards to successful achievement of the objective."

employees specific targets to reach and explain the importance of reaching them. Managers and employees work together to produce the required results.

• *Identify subordinates who fear greater responsibility.*

Not everyone wants greater responsibility. Those who do not are often unable to say so.

Sometimes, reluctance to accept greater responsibility stems from the employees' fear that they cannot handle it. In other cases, employees may not be motivated by a desire for promotion or recognition, and they may perceive more responsibility as an unwanted burden. Managers should learn to identify unachievers and to delegate authority only to those who welcome it.

It is often difficult for successful executives, who owe their success to a driving desire for greater responsibility and recognition, to understand others who seem to lack that motivation.

However, at some time during his career, any manager may seriously question the value of continued struggle for greater rewards. The fear of failure can cause the manager to downgrade his potential.

Successful executives should learn to recognize the individual differences of each subordinate and to evaluate where each subordinate stands in the career cycle.

Knowing who wants to be promoted is as important as knowing who is qualified for promotion.

Objectives and rewards

Motivation is easy if you can ensure that the manager or other employees you are trying to motivate will succeed at what you want them to do. In most cases, they desire to succeed just as much as you want them to be successful. Emphasize the results that are tied to the accomplishment of the goal. Complete the cycle by tying rewards to successful achievement of the objective.

This technique sounds simple. Yet the relationship between objectives, results, and rewards sometimes is not clearly articulated. When managers cannot explain the relationship, they really do not understand it. This is a sure sign that management needs improving.

Plan of action

Once both parties agree on the results which they are expected to accomplish, it is time to agree on a plan of action. Here is where a manager can use cumulative experience to help subordinates develop a realistic plan.

When feasible, agree on standard operating procedures. These will relieve both managers and subordinates of worrying about the solution to normally reoccurring problems.

Next, establish a series of intermediate goals or deadlines and set up

a procedure for periodically reporting progress toward these objectives. Less-experienced subordinates should make such reports more frequently than others should.

Finally, commit to writing the agreed-on objectives and deadlines and encourage subordinates to ask for help when a problem arises which they cannot handle. Assure them that coming to you is not a sign of poor management on their part, but recognition that helping each employee accomplish results is the job of the manager.

Be consistent

Once you have made a commitment to delegate authority and responsibility down through the ranks, make that decision stick.

Managers who switch back and forth between the roles of delegator and dictator cause nothing but confusion in the ranks. Soon employees will not know what behavior pattern to expect from the boss. Then their reaction will be frustration and stagnation.

Employees will begin to fear to do even what was agreed upon, because they will not be sure they really have the authority to get the job done. This frustrates one of the main goals of delegation:

Reducing the employees' dependence on the boss.

Delegation involves trusting that others will do the job they are being paid to do. Underlying this approach is the assumption that some of these subordinates really want the opportunity to do more.

Delegation involves risk, but the rewards are great. Helping develop employees who want to grow within the organization is a challenge which is basic to the profession of management.

No organization should have to ask itself: "Do we really know how productive our employees could be?" For implied in that question is another: "Have we ever given them the opportunity to do their best?" □

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The Mystery of the Business Graduate Who Can't Write

Often, a fledgling executive for whom a company has high hopes turns out to have a major deficiency—he or she can't write simple English. Business schools are tackling that problem

TWO HONOR GRADUATES of a highly regarded graduate school of business were called into a vice president's office at the company where they had been working since getting out of school a few months earlier. They were fired on the spot.

Why? Neither could get down on paper in proper English as much as a two or three-paragraph memorandum.

At a first-rate graduate business school in the Midwest, a student who was in the final few weeks of his two-year course was not able to get it into his otherwise intelligent head that a sentence must have a verb. His written reports and case analyses were studded with verbless sentences.

Still another graduate student, in writing a critique of a restaurant business operation, had this to say: "The customers flow into the restaurant at a rate of arrival, which is influenced by the size of the door. Then they flow to the tables at the rate of being seated."

A graduate student who hopes to teach writing in a business school someday wrote this: "My first objective will be the translation of subject matter difficult of access into material which touches each student. Hopefully, my efforts will be rewarded by papers about which authors care. If I succeed, their writing will surely improve."

Complaints from business

Examples of atrocious writing by business schools' graduates are constantly being sent to the schools by business executives. These executives are dismayed at finding that employees who were ticketed for eventual high-level jobs can write no better than tenth graders.

What can be done, the executives wonder, about the problem of graduate business school students who have not been given basic knowledge about writing?

The graduate schools' answer is that they have taken a step to solve the problem. They are now offering specialized courses in writing. Many universities have made such courses a requirement at both graduate and undergraduate business schools. Other universities which have started such courses do not make them requirements, but students are pressured to take the courses anyway.

Dean H. Justin Davidson, of the Cornell University Graduate School of Business and Public Administration, says that "the writing skill of our students has been getting steadily worse. We have put in an elaborate course in business writing, and apparently the students themselves know they need the work. Eighty of them signed up last autumn during the first three days the course was posted as available."

Walter J. Camp, director of admissions at the Colgate Darden Graduate School of Business Administration at the University of Virginia, says: "We do not feel our students write as well as they should. And we do not feel that many businessmen are effective communicators. We have a one-year required course in analysis and communication which involves writing and speaking."

New type of vice president?

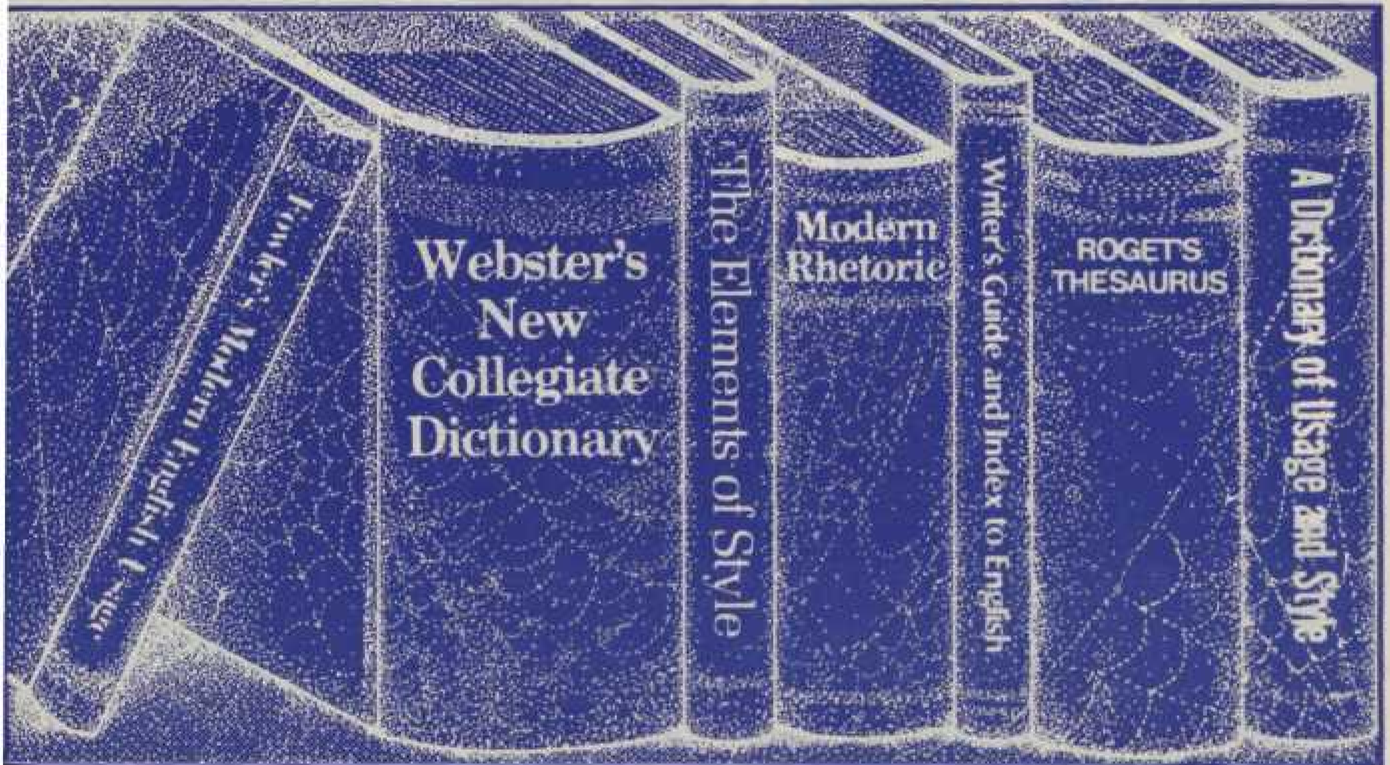
Associate Dean Claude S. George, Jr., of the Graduate School of Business Administration at the University of North Carolina, Chapel Hill, says his faculty thinks the students need to improve their writing and other communication skills. A first-year course is designed to help students in putting ideas on paper and in speaking lucidly and concisely.

Dean Jack D. Steele, of the University of Southern California School of Business Administration, asserting that many people on the management level in business cannot communicate, says it may be advisable for some large companies to establish vice presidencies whose mission is to improve intracompany communications.

Penn State University has begun a one-year course in communications which is required for all candidates for master of business administration degrees. The elaborately designed course is climaxed by visits from company executives.

The executives judge students while they make business presentations of various kinds.

Other universities with extensive writing courses in their graduate business schools include Carnegie-Mellon, Dartmouth, New York University, the University of Michigan, and Harvard.



One businessman-alumnus wrote to is alma mater: "Don't send our ompany any more applicants who ave graduate business degrees until ou teach them to write. The comany does not have time to teach hem. That's your job."

aying the blame

Graduate schools of business are aking on the job, but spokesmen for everal of them place much of the lame for students' poor writing abilties on undergraduate colleges and igh schools. The National Assessnent of Educational Progress backs his up with a finding that American eenagers "are losing their ability to ommunicate through written English."

A survey conducted by NAEP ompared writing skills of students ged 13 and 17 in 1970 and in 1974. It was found that both age groups in 1974 used a simpler vocabulary nd wrote less coherently than their ounterparts in school four years arlier.

Surveying students who are in the final stages of getting M. B. A. degrees but who write poorly, Cornell's Dean Davidson says much of the blame can be ascribed to their home lives.

"There is too much television watching, for one thing," he says. "There is a lack of reading, and there is no emphasis in the home on writing. More books may be sold these days, but more books go unread. There are too many cases of home bookshelves filled with lovely volumes that are little more than middle-class status symbols."

A member of the Cornell faculty adds two other causes for poor use of the written word by former students who have entered the business world: computer language distortions, which are taking the place of correct written English, and increased use by business of telephoning in place of letter writing.

Memos and letters

Many of the business school courses in writing start out at the lowest point—teaching how to write a one-paragraph memo. Then comes more complicated and longer memo writing. Then comes letter writing. All sorts of business letters are composed, such as letters of application and letters of complaint.

Courses reach their finale with preparation of multipage reports, proposals, critiques, resumés, and responses to various other business situations.

In some cases, professional writers are employed as lecturers even though they do not have degrees.

Instruction tools at several business schools include writing manuals published by Exxon, Chase Manhattan Bank, Procter and Gamble, and the Central Intelligence Agency.

Choice of words

The courses emphasize the choice of words, punctuation, style, and thought development.

Schools say students have particular difficulties with words such as these:

- Reveal, expose, disclose, divulge.
- Obsolete, obsolescent.
- Insure, assure, ensure.
- Affect, effect.
- Farther, further.
- Proven, proved.
- Implicit, explicit.

Problems with phrases often trip up students. For example:

- Do you acquiesce to, with, or in a suggestion?
- Do you agree with a person, to proposal, and on a plan?
- Does a writer imply and a reader infer?
- Do you stand on or in a line?

Female of the species

At Cornell, 20 percent of the graduate business school students are women. On average, they have thus far been found to be better writers than male students. The reason given is that the women are likely to have taken more liberal arts courses as undergraduates than the men and therefore have had more association with the written word. A larger proportion of the men studied science or engineering.

Anyone who doubts the magnitude of the writing problem among business school students should take a look at some of the things they put on paper. Three further examples:

An honor student at one graduate business school wrote about his undergraduate days that "at times my grades reflected average work spending more of my time in related interest. My last year I decided to concentrate most of my time in course study achieving the grades which I was capable of maintaining. Placing me on the dean's list both semesters."

A professor judges the writing of another business school graduate student to be "no better than that of a junior high schooler." A sample of the student's writing: "Working in the area of funeral service you become exposed to many problems and recipients of health care programs. Acquiring some insight to the workings of the hospital and their role in the community. Realizing these institutions have a great affect and influence the lives of people in our public health communities."

And at an Ivy League graduate school of business, a student introduced a book review he had written with this paragraph: "Even though the title of the book was 'Attitude Measurement for Marketing Strategies,' the author implied in his purpose that his can be of assistance to a student or executive approaching the subject for the first time. Basic to any approach of a new subject is the need for a solid beginning." □

Economic Viewpoint

Confidence in the Future versus Government Spending

BY DIMITRI N. BALATSOS

What the economy needs now, writes a leading economist, is a good boost to confidence— and not larger federal deficits which risk a new wave of inflation

THERE is an abundance of myths in the economic folklore, and some of the more popular ones involve the federal government. At least two such widely held misconceptions are especially relevant in the present economic environment.

The first refers to federal spending and deficits; the other, to Treasury borrowing and the crowding-out thesis.

The first myth

Putting it simply, the first myth holds that, despite the massive growth in spending, the federal government is not gobbling up the national pie. Supporters of this contention cite the fact that the federal budget, when cyclically adjusted, maintained a roughly constant share of gross national product—in the neighborhood of 20 percent—from 1953 to 1973 and is now only slightly above that figure because of the latest recession.

However, when the time horizon is stretched out, federal spending as a share of the nation's total output is shown to have risen dramatically. Federal spending went from three percent of GNP in 1930 to ten percent in 1940, 15 percent in 1950, and 19 percent in 1960. So far in the 1970's, the percentage has been 22, and it is projected to be slightly higher over the next two years, a period which also promises rising economic activity and more fully utilized resources. For the decade 1966-1976, the federal budget grew at an average annual rate of 11 percent, compared with 8½ percent for the general economy.

So the federal government may not be gobbling up the national pie, but it is clearly getting a larger piece.

There has been a chronic deficit, during good times and bad, in the U. S. budget since 1961, except for one year, 1969. The cumulative deficit for the period comes to a massive $222 billion. Supporters of the spending myth say that stimulative fiscal policies and the resultant large budgetary deficits are self-correcting since they generate new revenues that balance the budget.

But there is a fly in the ointment. The deficits generate revenues only by setting inflation forces in motion. It is not coincidental that in the past ten years the rate of inflation averaged twice the level of the previous ten years.

It is difficult to isolate precisely the contribution of chronic budget deficits to the recent bout with double-digit inflation. Acts of God, such as crop failures and the anchovy migration, along with acts of man, such as the quadrupling of the oil price, the devaluation of the U. S. dollar, and the imposition of wage and price controls, did play a major part. But persistent government deficits during periods of full employment were guilty, too.

The second myth

There are at least two other negative side effects of chronic deficits. The first is a shift from investment to consumption because government spending generally stimulates consumption. Second, government borrowing to finance the deficits diverts savings from the private to the public sector.

This last point leads into the second controversial subject: the Trea-

sury participation in the U. S. financial markets. The myth would have us believe that there is no need to worry about federal government borrowing crowding out private borrowing.

The national debt dropped from 86 percent of GNP in 1950 to about 30 percent in 1976, but this sharp decline is not terribly relevant in examining the crowding-out phenomenon. As with government spending and its rising share of the national pie, government financing activity has been accounting for a greater share of the financial pie. Net Treasury and federal agency borrowing as a proportion of total funds raised increased from five percent between 1956 and 1961 to ten percent between 1962 and 1971, and the proportion has been 22 percent since 1971. The fact that interest rates trended upward during this 20-year period is more than a coincidence.

The relationship of Treasury borrowing and interest rate trends is by no means direct, at least not over short intervals and especially when the economy is in a recessionary state. Over the longer run, however, and especially as the economy approaches full employment, Treasury borrowings come into conflict with expanding private credit needs and are a source of friction in the financial markets.

A finite fund supply

Available funds are limited to the net savings in the economy plus money that flows in from abroad. When the Treasury borrows, less is available for the private sector. As Alice put it in her adventures in Wonderland, "The more there is of mine, the less there is of yours." The only way that both the government and the private sector can satisfy their credit needs is for the Federal Reserve to increase the money supply, in which case inflation balances the equation. This course has been taken too often since the mid-1960's.

Putting things together, a wide-ranging debate is now under way as to whether a tax cut and a more liberal fiscal policy, involving even larger deficits in the short run than now projected, might prove to be a wise course. Proponents argue that enlarging personal income and profits more quickly would produce revenues that would ultimately bring the budget into better balance. There is a seductive attractiveness to this proposition. It appears that this is a way to have one's cake and eat it, too.

From an economic standpoint, a $10 billion to $15 billion tax reduction is not likely to generate much uplift. The aggregate number may look substantial, but the reduction loses a great deal of potency when disaggregated on a per capita or per family basis. From a financial point of view, one of the many difficulties with the tax relief proposition is that it ignores the monetary and interest rate side effects of enlarged deficits. In other words, it discounts the phenomenon of crowding out.

Mr. Balatsos is a vice president and economist at Manufacturers Hanover Trust Co., New York.

No crowding-out symptoms

In 1975 Treasury crowding out roared in like a lion, but went out like a lamb. There have been no crowding-out symptoms during the past two years. Otherwise, how can one explain the record volume of domestic and foreign corporate bond flotations and the downward trend in interest rates in this period? Private borrowers have not been denied credit on the basis of an inadequate supply of funds to meet both Treasury and private credit needs; there has been no credit crunch.

There are at least three reasons. First, overall private demands for credit retrenched sharply, thereby compensating almost dollar-for-dollar for expanded Treasury borrowing needs. Second, the economy was liquidity-starved, and the Treasury outpouring helped to replenish liquid reserves. And third, investors were hung up on asset quality, and Treasury flotations satisfied their desire for financial security.

This year, however, the financial environment will be changing. Private credit needs will be expanding, and liquidity replenishment will be reaching a high watermark, especially for financial institutions. The bulk of the Treasury borrowing load will have to be carried on the shoulders of nonfinancial investors. In addition, with inflation staying low at least by recent standards, and business balance sheets becoming stronger, investor emphasis on high quality will dissipate.

As a result, the huge Treasury financing can be expected to cause interest rates to accelerate faster than the tempo of economic activity will call for, and it might seriously dilute the economic benefits of tax relief.

New round of inflation?

Also, a budget deficit of great magnitude raises a ticklish question: Would there be fiscal overkill, which would deluge the economy with liquidity and start a new round of inflation?

At the outset, the answer will be largely determined by economic developments in the months ahead. If the economy stays on a moderate growth path of four to five percent in real terms, which is expected, there will continue to be substantial gaps in employment and capacity utilization which will tend to take away a good deal of the fiscal stimulation. Corollaries of a tame recovery in the period ahead are continuing relatively high rates of personal saving and a moderate overall rise in private credit needs, which would enable the Treasury to satisfy its borrowing requirements without pushing interest rates a lot higher.

Crowding out is clearly a longer-term phenomenon. The impact of huge Treasury deficits on the eco-

nomic scene beyond this year is the big question. If, by late 1977, the recovery has spread out and business activity is moving on nicely, there will be greater employment of human and physical resources. The private sectors will have stocked up on liquid assets, and their need for additional Treasury securities will have diminished. And private credit needs will be expanding.

Dilemma for the Fed

This set of circumstances will put the Federal Reserve in a new dilemma. If the monetary authorities are forced to underwrite a large portion of the deficit in order to minimize financial friction, escalating inflation expectations might still push interest rates higher and cool off the economic tempo. On the other hand, if the central bank refuses to go along, interest rates will climb, private borrowers will be crowded out, and business activity will slow down. The only favorable side effect of this outcome will be reduced fear of an inflation revival.

By comparison, a substantial cut in business taxes is one way to accelerate economic activity and minimize friction in the financial markets since a higher cash flow enables corporations to expand spending without having to resort to larger borrowings.

More confidence needed

The Carter administration and Congress should give careful attention to the monetary and interest-rate side effects of excessively large budget deficits. The modest rate of growth so far in this recovery cycle nearly guarantees that improvement will continue at least through 1977 before strains and dislocations begin to appear on the economic landscape. And an economic setback is not inevitable at any time in the foreseeable future.

There is no reason why, with patience and ingenuity on the part of the Carter administration, the U. S. economy cannot repeat the 1960-1970 performance. The recovery is short of only one commodity, and that is confidence. Taking this into account, a good boost to confidence rather than more spending by the new administration can go a long way toward promoting economic growth in the years ahead. ☐

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Nation's Business

By GROVER HEIMAN, Associate Editor

BUSINESS: A LOOK AHEAD

OSHA Urged to Shift Its Focus on Safety Standards

Business is urging the Occupational Safety and Health Administration to focus on performance-oriented safety and health standards rather than design standards.

Chief proponent of this change in approach is the Chamber of Commerce of the United States, which takes its position in the wake of a study by the National Chamber Foundation. Along with the focus on performance, the National Chamber favors development of nonregulatory OSHA guidelines.

For example, the OSHA standard for stepladders would specify safety requirements, i.e., how the ladders should perform. The nonregulatory guidelines would contain design standards for stepladders. The National Chamber says the guidelines should be developed by groups representing industries.

One obvious benefit would be standards that are more understandable, especially to small businesses. Standards now in effect for portable ladders consist of more than 25 pages of requirements.

Design requirements, says Richard P. O'Brecht, director of labor law for the National Chamber, should not be part of OSHA regulatory standards, but should be available as guidelines to manufacturers of ladders and to employers.

If the nonregulatory guidelines concept is adopted, OSHA would no longer need to continually update design standards. As technology changed, the guidelines could change.

Nonregulatory guidelines would also reduce the number of citations based on technical violations of OSHA standards which have little to do with improved safety.

Merger Decline Bottoms Out

A seven-year decline in the number of company mergers appears to have bottomed out, with more managements showing interest in diversification as a path to growth and a defense against business downturns. W. T. Grimm & Co., of Chicago, which publishes authoritative statistics on mergers, reports a decline of a mere one percent in mergers in the first half of 1976 compared to the same period in 1975.

The most recent Federal Trade Commission tabulation of mergers shows a different picture, but it covers an earlier period. FTC reports 1,805 mergers between sizable firms were completed in 1974 and only 1,228 in 1975. Mergers involving conglomerates, however, increased from 28 to 50.

Steady Growth Seen for Fast-Food Outlets

The growth rate for fast-food franchises is expected to be on the upswing again this year, but expansion is not going to be as wild as in the early 1970's.

That is the prediction from the Agriculture Department's Economic Research Service, which has surveyed the fast-food franchise industry to estimate the industry's demand for agricultural products.

Growth in sales by franchise outlets of all types is likely to outpace the general economy, the International Franchise Association says. The association sees franchise outlets' sales rising 12 percent this year to about $225 billion. Last year the total was about $200 billion, with fast-food sales accounting for $16 billion. Fast-food sales are expected to increase to $20 billion this year.

The Agriculture Department sees the number of fast-food franchise outlets growing steadily until 1980. That year, the department says, fast-food outlets probably will spend more than $6.4 billion for farm products in the U. S. for domestic consumption and will rely on U. S. sources for a good portion of the $1.6 billion they buy for foreign outlets.

The department expects fast-food outlets in the U. S. to increase two thirds in number to 46,000 by 1980 and foreign outlets to nearly double to more than 5,000. Prime target areas for expansion abroad are Japan, Australia and New Zealand, the European Community, and Canada.

Franchise sales of all types now account for 30 percent of all U. S. retail sales.

University Centers Aid Small Businesses

There are now eight universities where small businesses can get assistance at centers established under a federal government program.

These university business development centers serve as funnels for federal, state, local, and private activities to promote expansion of existing enterprises and establishment of new ones.

The Small Business Administration is contributing to the initial funding of the centers and providing staff assistance and volunteer counseling. Commerce Department and Department of Health, Education, and Welfare agencies also are taking part in the program. SBA officials believe these centers will do for business what land grant colleges have done for agriculture over the past 100 years.

The newest center is at California Polytechnic Institute. Other centers have been established at the University of Maine, Rutgers, the University of West Florida at Pensacola, the University of Nebraska at Omaha, the University of Missouri at St. Louis, and Chico State University.

Key Farm Laws Are Expiring

Three laws that have a great impact on American farmers' prosperity are coming up for renewal this year.

The three are the Agriculture and Consumer Protection Act of 1973, which sets price levels for certain crops; Public Law 480, which controls foreign agricultural assistance; and the Food Stamp Act of 1964.

At issue is future farm policy. Will the present market-oriented policy be continued or will there be a return to subsidies and burdensome surpluses?

The Agriculture Department says the market-oriented policy has saved more than $3 billion annually in payments to farmers and approximately $1 million daily for storage and handling of surplus farm production.

House Agriculture Committee Chairman Thomas S. Foley (D.-Wash.) says there is a good possibility that Congress will extend the expiring laws for one year pending further consideration.

ICC Says It Is Saving Billions for the Public

As a rebuttal to those who favor deregulation of interstate surface transportation to permit wider competition, the Interstate Commerce Commission says deregulation would cost the public billions of dollars.

A report developed by ICC's Bureau of Economics says the public now reaps a $4.4 billion annual benefit because of ICC regulation of rates and other business factors. If the agency were eliminated, ICC says, not only would this benefit be lost, but there would be comparable additional costs due to "adverse impacts on shippers, the transportation industry, and the public in general."

Airline Passenger Volume Expected to Double by 1988

Scheduled airlines in 1988 will be carrying twice the number of passengers they are carrying now.

This prediction comes from the Federal Aviation Administration, which calculates that airline passenger traffic will increase at a 5.9 percent annual rate during the next dozen years. FAA makes such studies to plan for needed air transport facilities.

Scheduled airlines now fly 195.1 million passengers on domestic trips annually and 16.7 million on international flights. The figures are expected to be 393.2 million and 35.3 million by 1988. Similar growth is predicted for air cargo, general aviation, and air taxi operations.

All this activity probably will require some reordering of energy priorities. Fuel consumed by scheduled airlines' domestic flights alone will rise from 8.9 billion gallons last year to 15.6 billion gallons in 1988, FAA says. By that time, unless there is an unforeseen development, the nation will be importing 50 percent of the petroleum it uses, FAA says. The petroleum import figure now is about 45 percent.

The South Is the Winner in Population Growth

Every part of the country had more births than deaths between 1970 and 1975, but the South was the clear winner in population gains.

The South gained 5.3 million in population, nearly a million more than the combined growth in the Northeast, the north-central states, and the West.

At the latest count by the U. S. Census Bureau, 68 million Americans lived in the South; 57.7 million in the north-central states, 49.5 million in the Northeast; and 37.8 million in the West.

In all, 16 states and the District of Columbia had more residents moving out than in during the 1970-75 period. The largest beneficiary of migration was Florida, with 1.4 million new arrivals. Florida was followed by California and Texas, with about 400,000 new arrivals each, and by Arizona and Colorado, which gained more than 200,000 new residents each.

The state with the largest population loss due to migration was New York, where those leaving the state outnumbered newcomers by more than 500,000. Next came Illinois, with a migration loss of almost 350,000. Ohio, Pennsylvania, and Michigan each lost more than 100,000 residents due to population movement. □

EDITORIAL

Promises Won't Prevent the Next Energy Crisis

BASIC TO THE SURVIVAL of the nation is a sound economy and a strong national defense. Both are dependent on an adequate supply of energy.

It follows, then, that the establishment of a comprehensive policy to ensure an adequate supply of energy is a matter of serious concern.

Public alarm over the economic and security implications of the 1973-74 Arab oil embargo led to official proclamation of energy independence as a top-priority national goal.

What headway have we made toward attaining that goal? Very little, if any.

Today, in fact, we produce less oil ourselves and import more oil from other countries than we did before the embargo. And yet, environmental restraints impede such important steps as the development of oil production off the continental shelf.

Similar restraints severely hamper efforts to increase the use of the only two energy sources that offer us any realistic hope of self-sufficiency: coal and nuclear power.

Federal price controls on natural gas continue to stifle initiatives for finding new supplies—and reserves dwindle alarmingly.

In addition, an overall obstacle to expanding energy resources is a federal tax policy which discourages the vast capital investment that the energy industries must have.

Government failure to formulate a cohesive energy policy is largely the result of congressional efforts to achieve the impossible—to please all of the people all of the time.

There must be a balance between energy needs and environmental aspirations, between the cost of producing a product and its selling price, between the amount of money the government collects in taxes and the amount individuals can keep to invest.

Mere promises do not provide energy. The only way to solve the energy problem is to face up to the problem now.

If you have ideas about the issues involving a national energy policy, your elected representatives in Washington will be glad to hear from you and to know your views. □

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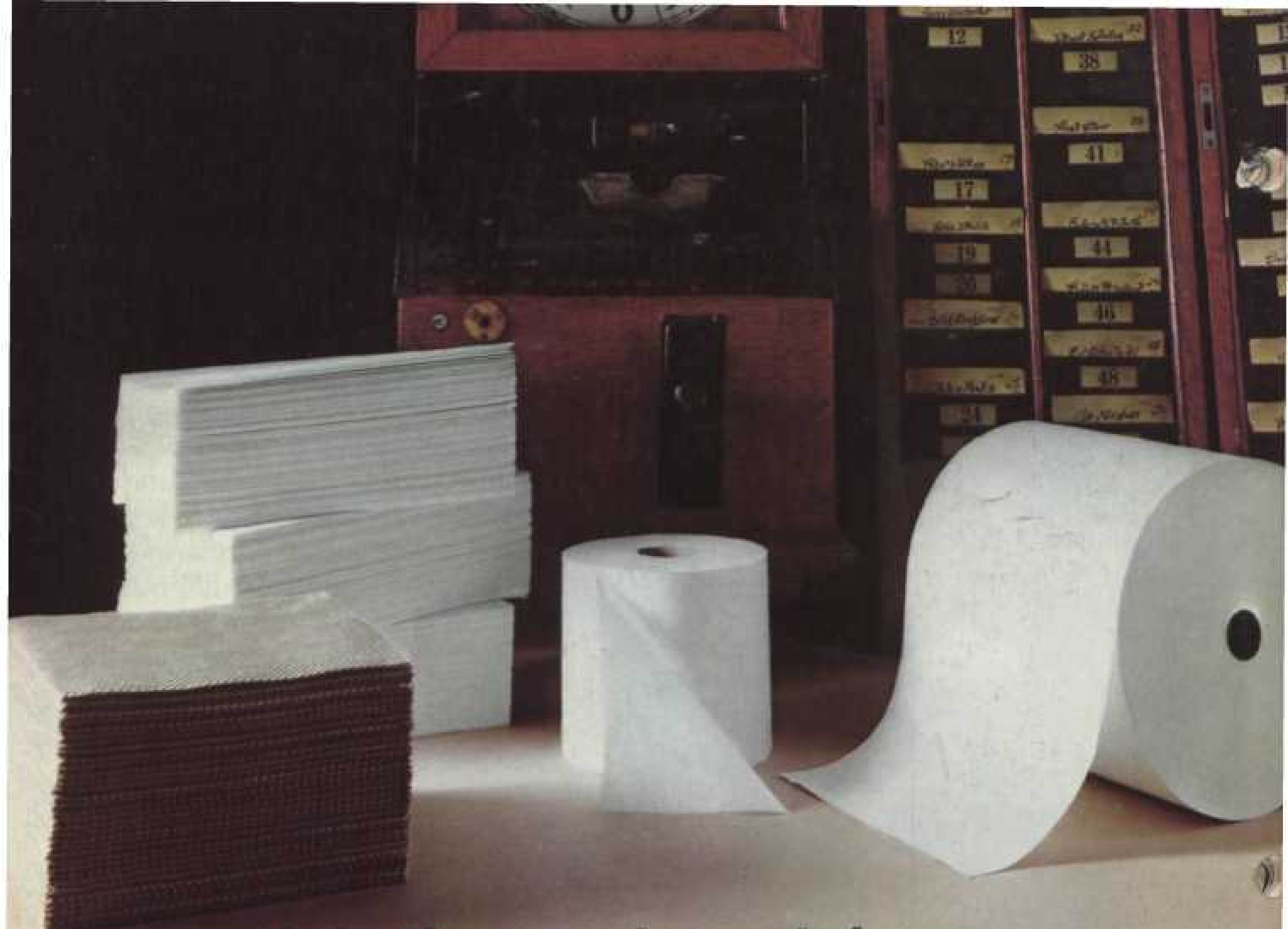

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